

EBITDA RECONCILIATION

THE FOLLOWING TABLE SUMMARIZES THE CALCULATION OF EBITDA
AND PROVIDES A RECONCILIATION TO NET INCOME/(LOSS):

| TWELVE MONTHS ENDING 12/1/2005 | TOTAL (IN MILLIONS) |
|--|---------------------|
| Net Income: | \$ 84 |
| Plus: | |
| Income Tax Expense | 43 |
| Interest Expense | 175 |
| Amortization of Finance Costs | 17 |
| Amortization of Debt Discount/(Premium) | 5 |
| Refinancing Expense | 56 |
| Depreciation Expense | 194 |
| Amortization of Power Contracts | 5 |
| Amortization of Emission Credits | 13 |
| EBITDA | \$ 592 |
| Income from Discontinued Operations | (7) |
| Corporate Relocation Charges | 6 |
| Impairment Charges | 6 |
| Gain on Settlement | (7) |
| Gain on Sale of Land | (4) |
| TermoRio Legal Matters | (11) |
| Gain on Crockett Contingency | (3) |
| Write Down and (Gains)/Losses on Sales of Equity Method Investments | 31 |
| Adjusted EBITDA | \$ 603 |



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Credit Rating Reports

<HELP> for explanation.

P065 Equity CRPR

Related Functions Company Tree Ratings CREDIT PROFILE

NRG Energy Inc

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| | MO | LT Corp Family Rating | -MOODY'S |
|---------------------|----------|-----------------------|----------|
| 1) Outlook | | | STABLE |
| 2) Issuer Rating | RATING | EFFECTIVE | B |
| 3) Senior Secured | Ba3 | 1/ 6/06 | BB |
| 4) LT Corp Family | B1 | 12/10/04 | B+ |
| 5) Bank Loan Debt | B2 | *+ 11/15/04 | CCC+ |
| 6) Senior Unsecured | B2 | 12/15/03 | |
| 7) Preferred Stock | | | |
| | STANDARD | | |
| 8) Outlook | | | |
| 9) LT Foreign | | | |
| 10) LT Local Is | | | |
| 11) ST Foreign | | | |
| 12) ST Local Is | | | |

UP / DOWN / NEUTRAL
to return to credit profile

<HELP> for explanation.

P065 Equity CRPR

Related Functions Company Tree Ratings CREDIT PROFILE

NRG Energy Inc

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| | MO | Bank Loan Debt | -MOODY'S |
|-----------------|--------|----------------|----------|
| 1) Outlook | | | STABLE |
| 2) Issuer Rati | RATING | EFFECTIVE | B |
| 3) Senior Secu | Ba1 | 9/27/06 | BB |
| 4) LT Corp Fam | Ba2 | 1/ 6/06 | B+ |
| 5) Bank Loan D | Ba3 | 12/10/04 | CCC+ |
| 6) Senior Unse | B1 | *+ 11/15/04 | |
| 7) Preferred S | B1 | 12/15/03 | |
| 8) Outlook | | | |
| 9) LT Foreign | | | |
| 10) LT Local Is | | | |
| 11) ST Foreign | | | |
| 12) ST Local Is | | | |

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- MO
- 1) Outlook
 - 2) Issuer Rating
 - 3) Senior Secured
 - 4) LT Corp Fam
 - 5) Bank Loan D
 - 6) Senior Unse
 - 7) Preferred S

Senior Unsecured Debt

-MOODY'S

RATING
B1

EFFECTIVE
1/ 6/06

STABLE
B
BB
B+
CCC+

- STANDARD
- 8) Outlook
 - 9) LT Foreign
 - 10) LT Local Is
 - 11) ST Foreign
 - 12) ST Local Is

UP / DOWN / NEUTRAL
to return to credit profile

Australia 61 2 9777 8600
Hong Kong 852 2977 6000

Brazil 5511 3048 4500
Japan 81 3 3201 8900

Europe 44 20 7330 7500
U.S. 1 212 318 2000

Germany 49 69 920410

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Moody's Investors Service

Global Credit Research

Credit Opinion

6 NOV 2006

Credit Opinion: NRG Energy, Inc.

NRG Energy, Inc.

Princeton, New Jersey, United States

Ratings

| Category | Moody's Rating |
|-----------------------------|-----------------------|
| Outlook | Negative |
| Corporate Family Rating | Ba3 |
| Sr Sec Bank Credit Facility | Ba1 |
| Senior Secured Shelf | (P)Ba1 |
| Senior Unsecured | B1 |
| Subordinate Shelf | (P)B2 |
| Preferred Stock | B2 |
| Speculative Grade Liquidity | SGL-2 |

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Key Indicators

NRG Energy, Inc.

| | 2005 | 2004 | 2003 | 2002 |
|-------------------------------------|-------------|-------------|-------------|-------------|
| (CFO Pre-W/C + Interest) / Interest | 3.2 | 3.2 | -0.7 | 0.7 |
| (CFO Pre-W/C) / Debt | 15% | 16% | -14% | -2% |
| (CFO Pre-W/C - Dvidends) / Debt | 14% | 16% | -14% | -2% |
| (CFO Pre-W/C - Dvidends) / Capex | 426% | 489% | -447% | -11% |
| Debt / Book Capitalization | 61% | 59% | 62% | 107% |
| EBITDA Margin | 12% | 25% | -15% | -127% |

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

NRG Energy, Inc. (NRG) owns and operates a diverse portfolio of power-generating facilities, primarily in Texas and the Northeast, South Central and Western regions of the US. Its operations include base load, intermediate, peaking, and cogeneration facilities, thermal energy production and energy resource recovery facilities. NRG also has ownership interests in generating facilities in Australia, Germany and Brazil. In total, NRG owns more than 24,000 megawatts (mws) of electric generation, of which nearly 23,000 mws are located in North America. NRG is headquartered in Princeton, New Jersey.

On February 2, 2006, NRG closed its acquisition of Texas Genco LLC, a competitive wholesale generator with base load, intermediate, and peaking assets in Texas. The final purchase price consisted of \$4.4 billion in cash, \$2.7 billion in assumed Texas Genco debt and 35.4 million shares of NRG common stock.

Rating Rationale

NRG's Ba3 Corporate Family Rating reflects an expectation of relatively predictable cash flow for the next several years based upon margins that are supported by various hedges or contracts. The rating incorporates the value of operating a regionally diverse portfolio of base load generation assets, with a particularly strong competitive position in key competitive markets including Texas and PJM. Over the next three years, 70% -80% of the

company's consolidated margin is expected to be derived from existing contractual or hedged arrangements thereby providing a relatively high degree of comfort around cash flow predictability. The rating also recognizes the benefits of the fleet's base load characteristics, its fuel source advantage, and the location of certain assets in capacity constrained markets, which together, increases the likelihood that these assets will secure replacement contracts when the existing hedges expire. Moody's expects that the ratio of consolidated funds from operations (FFO) to consolidated adjusted debt to be at least 13% over the intermediate term under most reasonable scenarios.

The key drivers of NRG's ratings are:

1) Higher cash flows and greater predictability in earnings are anticipated for the next three years based upon forward hedges in place.

NRG continues to implement a forward hedging strategy which reduces portfolio risk and increases cash flow predictability over the next three to five years. Over the next three years, approximately 80% of NRG base load capacity has been sold forward. A large portion of this base load capacity is located in Texas and to a lesser extent in PJM, where NRG's assets are competitively positioned. In November 2006, NRG announced plans to reset and extend its existing book of hedges established for its Texas generating fleet. To facilitate the transaction, NRG will pay various counterparties approximately \$1.35 billion. From a cash flow perspective, the transaction is expected to increase operating cash flow and free cash flow by more than \$1.3 billion over the next three years. This free cash flow is expected to be used for capital investment, share repurchases, and debt reduction. Beyond 2009, NRG has entered into gas hedges, which greatly reduces the company's margin exposure to potential changes in gas prices.

2) NRG's current leverage incorporates a healthy acquisition premium for the Texas Genco assets as well as the incremental debt to be incurred to finance the reset and extension of NRG's hedged book.

In early 2006, NRG paid a substantial premium to acquire Texas Genco but financed the acquisition with both equity and about \$2.5 billion of incremental debt. Now the company is planning on financing \$1.1 billion of the \$1.35 billion settlement payment with its counterparties to reset and extend hedges on the Texas Genco portfolio. While the company's pro-forma credit metrics remain in the Ba3 rating category and the hedges executed reduce cash flow volatility, the incremental debt exposes bondholders to increased financial risk should margins compress when the existing set of hedges expire unless the incremental debt is substantially reduced. NRG's base load and geographical location help to mitigate that risk, but the company's ability to generate cash flow can be highly influenced by future changes in natural gas prices and by supply additions to a particular region. While the company is expected to generate substantial free cash flow that could be used to facilitate debt reduction, previously announced plans to invest substantial capital in a variety of new generation projects and to increase share repurchases, could limit the amount of debt reduction over the next few years.

3) Credit metrics are reasonably well-positioned in the Ba3 rating category

Moody's expects the ratio of FFO to total adjusted debt to be at least 13% and FFO to adjusted interest expense to be above 3.0x under most reasonable scenarios over the next several years. Given the high degree of contracted margin hedged for the next few years, these credit metrics should position the company reasonably well in this rating category. Additionally, the company's management has stated that it intends to operate its business with a capital structure of 45% to 60% net debt to total capital (including non-recourse debt). While the \$1.1 billion in additional debt places the company at the upper end of this range, the resulting capital structure is moderate when compared to other pure independent power companies.

4) Substantial capital programs and share repurchases have been announced.

NRG has announced a large capital investment program that includes investments in environmental capital expenditures for its existing coal fired fleet as well as a large re-powering initiative at new and existing sites owned by NRG. In total, the entire potential capital investment for all projects being considered could reach \$16 billion although Moody's does not believe that all of these projects will be built over this timeframe. Additionally, NRG expects to bring in partners to own portions of the assets being built and does not intend to begin meaningful construction of any of the assets until firm off-take contracts are in place. While NRG expects to finance a portion of these investments with non-recourse debt, Moody's would likely view this debt as being on-credit to NRG as it would likely represent a core holding of the company since these investments would, most likely, be considered an integral part of the company's growth strategy.

Additionally, NRG has been consistently returning increasing amounts of capital to shareholders over the past several years. In the third quarter 2006, NRG initiated a Capital Allocation Program to repurchase approximately \$750 million of its common stock in two phases. Phase I was a \$500 million stock repurchase program, which was completed on October 13, 2006. Phase II was to be an additional \$250 million common stock buyback anticipated to commence during the first quarter 2007. In conjunction with the hedge reset program, NRG has upsized Phase II to \$500 million and has accelerated commencement of this phase to the fourth quarter 2006 and intends to complete it by the end of the second quarter 2007.

Also, NRG intends to modify the terms of its secured credit agreement in a manner that will increase the restricted

payments basket, increase the amount of permitted indebtedness, allow greater flexibility for the company to make capital investments, and reduce the cash sweep mechanism. Specifically, NRG's restricted payments basket is expected to increase to \$500 million.

Rating Outlook

The negative outlook incorporates the permanent increase in leverage that will occur to facilitate completion of the reset hedge transaction and factors in the company's previously announced capital investment program, recent actions to return more capital to shareholders and its intention to loosen several restrictions in its current credit agreement. While free cash flow is expected to increase as the result of the reset of the power hedges over the next three years, Moody's believes that a substantial portion of this cash may end up being used for share repurchases and for capital investment, thereby leaving the company with higher permanent debt levels than originally anticipated. To the extent that the company's future margins compress due to lower natural gas prices or due to lower market heat rates, the company's fundamental credit quality will weaken.

What Could Change the Rating - Up

In light of the negative rating outlook as well as the company's capital investment plan and announced share repurchases, limited near-term prospects exist for the rating to be upgraded. However, the rating outlook could be stabilized if the company makes meaningful progress towards using expected free cash flow to permanently reduce debt over the next several years, and if the company finances its large capital investment program in a relatively conservative manner resulting in FFO/Adjusted Debt rising to above 16% on a sustainable basis..

What Could Change the Rating - Down

The rating could be downgraded if the level of share repurchases continues to increase materially over the next eighteen months without meaningful progress towards reducing consolidated debt or if the company chooses to finance its capital investment program with higher than anticipated levels of debt. Additionally, should margins compress across NRG's existing generation fleet or should additional leverage be incurred to finance shareholder rewards or capital investments, causing adjusted FFO to total adjusted debt to fall to 10% or below for an extended period, the rating could be downgraded.

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Rating Action: NRG Energy, Inc.

Moody's changes NRG Energy's outlook to negative; affirms ratings

Approximately \$11 Billion of Debt Securities and Bank Facilities Affected

New York, November 03, 2006 -- Moody's Investors Service changed the rating outlook to negative from stable for NRG Energy, Inc. (NRG: Ba3 Corporate Family Rating) following the announcement that the company had entered into a series of transactions with counterparties to reset and extend existing power and gas hedges at market prices, requiring a payment to counterparties of around \$1.35 billion. Moody's also affirmed all existing ratings of NRG and assigned a B1 rating to the planned issuance of \$1.1 billion of senior unsecured notes which will be used by NRG to partially fund the counterparty payment.

"While the rating affirmation incorporates the increase in near-term cash flow and the reduction in cash flow volatility following the reset and extension of power and gas hedges, the negative outlook considers the \$1.1 billion of permanent indebtedness added to the capital structure, at a time when share repurchases and future capital requirements have increased and are expected to stay at an elevated level," said A.J. Sabatelle, Vice President of Moody's.

The rating affirmation reflects the increase in operating cash flow and free cash flow anticipated over the next three years following the reset of existing hedges across NRG's Texas generation fleet. Operating cash flow and free cash flow are expected to increase by \$1.3 billion over the next three years and the company's operating margin will continue to remain highly contracted over this timeframe. Moody's expects that under most reasonable scenarios, the company's funds from operations (FFO) to total adjusted debt is expected to be at least 13% over this timeframe, which remains consistent with the existing Ba3 Corporate Family Rating. While most of the incremental cash flow will surface over the next three years, the execution of additional gas hedges maturing in 2010 and 2011 should enable NRG to reduce its exposure to future changes in natural gas prices, an important driver of cash flow volatility for the company.

The negative outlook incorporates the permanent increase in leverage that will occur to facilitate completion of this transaction and factors in the company's previously announced capital investment program and recent actions to return more capital to shareholders. To that end, Moody's also notes that NRG intends to modify the terms of its secured credit agreement in a manner that will increase the restricted payments basket, increase the amount of permitted indebtedness, allow greater flexibility for the company to make capital investments, and reduce the existing cash sweep mechanism. While free cash flow is expected to increase as the result of the reset of the power hedges over the next three years, Moody's believes that a substantial portion of this cash may end being used for share repurchases and for capital investment, thereby leaving the company with higher permanent debt levels than originally anticipated. To the extent that the company's future margins compress due to lower natural gas prices or lower market heat rates, the company's credit quality will weaken.

In light of the negative rating outlook as well as the company's capital investment plan and announced share repurchases, limited near-term prospects exist for the rating to be upgraded. However, the rating outlook could be stabilized if the company's credit if the company makes meaningful progress towards using free cash flow to permanently reduce debt by more than \$1.0 billion over the next several years, and if the company finances its anticipated large capital investment program in a relatively conservative manner resulting in a adjusted FFO to total adjusted debt of 16% on a sustainable basis..

The rating could be downgraded if the level of share repurchases continues to increase materially over the next eighteen months without meaningful progress towards reducing consolidated debt or if the company chooses to finance its capital investment program with higher than anticipated levels of debt. Additionally, should margins compress across NRG's existing generation fleet or should additional leverage be incurred to finance shareholder rewards or capital investments, causing adjusted FFO to total adjusted debt to approach 10% for an extended period, the rating could be downgraded.

Ratings affirmed/assessments revised:

- Corporate family rating at Ba3;
- Probability of default rating at Ba3;

- Senior secured 1st lien term loan at Ba1 (LGD 2, 22% from LGD 2, 25%);
- Senior secured 1st lien revolver at Ba1 (LGD 2, 22% from LGD 2, 25%);
- Senior unsecured notes at B1 (LGD 5, 77% from LGD 5, 80%);
- Shelf registration for senior secured debt at (P) Ba1 (LGD 2, 22% from LGD 2, 25%);
- Shelf registration for senior unsecured debt at (P) B1 (LGD 5, 77% from LGD 5, 80%);

Ratings and assessments affirmed:

- Preferred stock at B2, LGD 6, 98%;
- Shelf registration for subordinated debt at (P)B2, LGD 6, 97%;
- Shelf registration for preferred stock at (P)B2, LGD 6, 98%;

Rating assignment:

- \$1.1 billion of senior unsecured notes at B1 (LGD 5, 77%);

Headquartered in Princeton, New Jersey, NRG Energy, Inc. owns and operates power generating facilities, primarily in Texas and the northeast, south central and western regions of the United States. NRG also owns generating facilities in Australia, Brazil, and Germany.

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Issuer Comment: NRG Energy, Inc.

MOODY'S COMMENTS ON NRG'S SHARE REPURCHASE PROGRAM

Moody's Investors Service views the announcement by NRG Energy, Inc. (NRG: Ba3 Corporate Family Rating, Stable Outlook) to launch a \$750 million share repurchase program in two stages as being negative to NRG's overall credit quality but not material enough to affect the current rating or the stable rating outlook.

The share repurchase program will be implemented in two phases, an immediate \$500 million share repurchase followed by a \$250 million share repurchase in 2007. The \$500 million share repurchase will add \$334 million of consolidated debt to the balance sheet and will utilize \$166 million of corporate cash. NRG's pending sale of its Flinders and Gladstone generating facilities is expected to reduce consolidated debt by \$572 million by the first quarter of 2007. The combination of these two transactions will result in a modest decline in consolidated debt, relatively unchanged credit metrics, as the ratio of funds from operations to total debt for 2006 is expected to be around 13%, and a continuation of relatively high percentages of hedged margins through 2008 which underpin future cash flows. NRG expects to be cash flow positive for the next several years and its liquidity of around \$2 billion at June 30, 2006 should not be materially impacted.

While the incremental \$334 million of new debt has no legal recourse to NRG as it is being incurred at a newly formed, bankruptcy remote unrestricted subsidiary of NRG, Moody's views the incremental debt as negatively weighing on the credit profile of NRG. For one, the company considers the newly established funding vehicle as being core to NRG's capital allocation program as a means of returning capital to its shareholder base. Additionally, Moody's believes that NRG, under most scenarios, would have strong economic incentives, including the avoidance of shareholder dilution, to provide cash to the funding corporation in subsequent years to be used to satisfy its maturing obligations. Moody's also notes that NRG has sole discretion to terminate the funding corporation for any reason by making a termination payment that is at least equal to the remaining balance of the funding corporation's debt.

Moody's recognizes that NRG's ability to provide such capital to the funding corporation is subject to the size of the restricted payment basket under the company's indenture. This basket, currently sized at \$250 million, will reduce to approximately \$84 million upon the initial funding of the repurchase program, but is expected to replenish to \$250-\$300 million during 2007 and facilitate the second phase of the repurchase program. Moody's believes that NRG will operate its future business with an eye towards maintaining maximum availability of its restricted payment basket, due to the potential dilutive affect on the company's share price should a limitation in the size of the restricted payment basket result in substantial shares of the company's common stock being liquidated in the market by the lender. Accordingly, Moody's will consider the funding corporation's repayment obligations as a potential call on NRG's future capital and as such, will consider the incremental debt to be on-credit and will incorporate these future capital calls (\$220 million in 2008 and \$180 million in 2009) into our ongoing liquidity analyses when assessing the company's Speculative Grade Liquidity rating (SGL-2).

Moody's views today's announcement as a shift in management's financial strategy towards increased shareholder rewards. To the extent that the share repurchase program is enhanced or enlarged the rating could be negatively impacted, particularly given the potential size of the company's future capital expenditure programs.

Headquartered in Princeton, New Jersey, NRG Energy owns and operates power generating facilities, primarily in Texas and the northeast, south central and western regions of the United States. NRG also owns generating facilities in Australia, Brazil, and Germany.

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**Spec Grade Liquidity Assmt: NRG Energy, Inc.****NRG Energy, Inc.**

MOODY'S DOWNGRADES SPECULATIVE GRADE LIQUIDITY RATING FOR NRG ENERGY, INC. TO SGL-2 FROM SGL-1

Moody's Investors Service downgraded NRG Energy, Inc.'s (NRG) speculative grade liquidity rating to SGL-2 from SGL-1. The SGL-2 Speculative Grade Liquidity rating for NRG reflects Moody's expectation for maintenance of a good liquidity position for the near term. The downgrade reflects the increased use of working capital by NRG to operate its current business as nearly \$600 million of cash has been utilized to secure mark-to-market positions with various counterparties. Additionally, NRG intends to utilize about \$400 million of cash to complete the \$8.3 billion acquisition of Texas Genco, LLC (TGN) thereby making use of a substantial portion of the company's unrestricted cash. About 50% of the cash pledged to counterparties will be returned to NRG during the first part of 2006 and the replacement contracts or hedges are expected to require less mark-to-market collateral, since the new hedges will likely be closer to the market price of electricity. While the company is expected to generate free cash flow over the next twelve months, Moody's expects NRG's future liquidity to be more dependent on credit availability under its revolving credit and letter of credit facility and believes that unrestricted cash balances are likely not to be as robust as it has in the recent past.

At September 30, 2005, NRG's unrestricted cash on hand was \$508 million. In addition to the amount of cash on hand, current working capital needs are satisfied by availability under the \$150 million secured revolving credit facility due in 2007 and under the \$350 million letter of credit facility due in 2011. At December 31, 2005, NRG had no outstandings under the \$150 million revolver and had \$312.2 million of letters of credit issued under the \$350 million letter of credit, leaving \$187.8 million of borrowing capacity under these facilities. Following the acquisition of TGN, NRG will rely upon a \$1 billion RC due in 5 years and \$1 billion synthetic letter of credit facility due in 7 years as well as cash on hand to handle liquidity requirements. Working capital needs largely include the posting of collateral required to secure fuel for its power generation business as well as satisfying collateral requirements of various counterparties for financial forward sales. NRG's credit facilities contain numerous affirmative and negative covenants. At September 30, 2005, NRG was in compliance with its financial covenants. Over the next twelve months, Moody's expects NRG to remain in compliance with the financial covenants under its credit facilities.

On September 30, 2005, NRG entered into an agreement with TGN and each of the indirect owners of TGN, under which NRG agreed to purchase all of the outstanding equity interests in TGN for a total purchase price of approximately \$8.325 billion, including an equity component valued at \$1.8 billion based on a price per share of NRG common stock of \$40.50. This purchase price includes NRG's assumption of about \$2.5 billion of TGN indebtedness. Of the \$5.825 billion consideration payable to the TGN owners, NRG will pay \$4.025 billion in cash and issue a minimum of 35,406,320 shares of NRG's common stock to the TGN sponsors. At NRG's election, the remaining consideration may be comprised of either an additional 9,038,125 shares of common stock, additional cash, shares of a new series of NRG's Cumulative Redeemable Preferred Stock or a combination of the above.

NRG expects to finance the acquisition through a combination of a new \$5.2 billion senior secured credit facility, including up to \$3.2 billion under a senior first priority term loan facility, up to \$1 billion under a senior first priority secured revolving credit facility and up to \$1 billion under a senior first priority secured synthetic letter of credit facility. Additionally, NRG plans to issue a \$3.6 billion senior unsecured bond financing, a \$500 million convertible preferred offering, and up to \$1 billion in equity through a NRG common stock offering. Also, as part of the transaction, NRG intends to take out all of the existing public notes at NRG and TGN and to refinance the existing terms loans at NRG and TGN. To that end, NRG has tendered for the 6.875% TGN senior unsecured notes due 2014 and has tendered for the NRG 8.0% 2nd lien secured notes due 2013. As of December 29, 2005, NRG had secured consents from the existing note holders at NRG and at TGN to tender for these securities upon completion of the merger.

The transaction is subject to the approval from the Nuclear Regulatory Commission, having received approval from the Federal Energy Regulatory Commission, and having been reviewed under the Hart-Scott-Rodino Act. The transaction is scheduled to close sometime during the first quarter 2006.

NRG's Corporate Family Rating is Ba3 and its rating outlook is stable. The company, headquartered in Princeton, New Jersey owns and operates a diverse portfolio of power-generating facilities, primarily in the Northeast, South Central and West Coast regions of the United States. NRG also has ownership interests in international generating facilities in Australia and Germany.

Analyst

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Rating Action: NRG Energy, Inc.

MOODY'S UPGRADES NRG ENERGY'S CORPORATE FAMILY RATING TO Ba3 FROM B1; ASSIGNS Ba2 SR. SECURED BANK LOAN RATING, B1 SR. UNSECURED NOTES, AND B3 CONV. PREFERRED TO ACQUISITION FINANCING OF TEXAS GENCO, LLC. RATING OUTLOOK STABLE

Approximately \$15.5 billion of Debt Securities and Bank Credit Facilities Affected.

New York, January 06, 2006 — Moody's Investors Service upgraded the ratings of NRG Energy, Inc. (NRG: Corporate Family Rating to Ba3 from B1), assigned a Ba2 senior secured rating to the proposed \$5.2 billion First Lien Secured Revolver and Term Loan B Credit Facilities, and assigned a B1 rating to the proposed \$3.6 billion senior unsecured notes to be issued by NRG in conjunction with its \$8.3 billion acquisition of Texas Genco, LLC. Moody's also assigned a B3 rating to NRG's proposed issuance of \$500 million of mandatory convertible preferred stock and assigned ratings to a multiple shelf registration at NRG of (P)Ba2 for senior secured debt, (P)B1 for senior unsecured debt, (P)B2 for subordinated debt and (P)B3 for preferred stock. Additionally, NRG's Speculative Grade Liquidity (SGL) rating was downgraded to SGL-2 from SGL-1. The rating outlook for NRG is changed to stable from developing.

The ratings of Texas Genco, LLC (TGN: Ba3 Corporate Family Rating) are affirmed and the outlook for TGN is stable. All of TGN's ratings will be withdrawn upon completion of the acquisition with NRG.

The upgrade and rating assignment to NRG's proposed financing reflects the strong financial performance at NRG, relatively predictable cash flow and the expectation of continued strong performance following the completion of the merger with TGN, based upon margins that are supported by various hedges or contracts. Over the next three years, between 65% to 80% of the company's consolidated revenues are expected to be derived from existing contractual or hedged arrangements thereby providing a high degree of comfort around cash flow predictability. The rating also recognizes the fact that a large portion of the NRG assets have base load characteristics and competitive advantages to most other fuel sources which increases the likelihood that these assets will secure replacement contracts when the existing hedges expire. Management intends to contract forward 70% to 80% of the output from these base load units which should support the continuation of sustainable cash flow generation. Moody's expects that the ratio of consolidated funds from operations (FFO) to consolidated adjusted debt to be at least 12% over the intermediate term under most reasonable scenarios. The ratings further incorporate the increased degree of diversity in markets, fuel mix, and generating capacity that will result from the merger, all of which increase the prospects for stable operating performance.

While NRG is paying a substantial premium for these assets and consolidated leverage is expected to increase by about \$2.5 billion, the ratings also consider NRG's plans to issue \$1.0 billion of common equity and up to \$500 million of mandatory convertible preferred to help finance the transaction at closing. Moody's expects NRG's consolidated adjusted leverage to increase to 65% at closing but also anticipates a reasonably rapid decline in leverage over the next few years due to scheduled amortization of recourse and non-recourse debt as well as the application of excess cash flow to term loan debt. Moody's expects NRG to be free cash flow positive under most scenarios examined and expects meaningful free cash flow generation, 75% of which could be used for debt reduction due to the cash sweep mechanism in the credit agreement. The ratings incorporate management's stated desire to operate the business with a capital structure of 45% to 55% net debt to total capital and recognize management's actions over the past two years to operate the business around that goal by reducing debt from asset sales and internal cash generation. The ratings consider the importance of sizeable access to liquidity for posting mark-to-market collateral with counterparties and the need for strong operating performance, particularly from its nuclear generation, given the amount of margin under contract.

The Ba2 rating for the \$5.2 billion of First Lien bank credit facilities, one notch above the Corporate Family Rating, incorporates the fact that collateral coverage for this class of debt is strong as creditors will be secured by a first lien on all unencumbered subsidiary assets through upstream guarantees. The rating also incorporates an expectation that outstandings under the \$3.2 billion term loan will decline over the intermediate term due to free cash flow generation and resulting debt paydown due to the cash sweep mechanism in the credit agreement thereby increasing collateral value for first lien creditors. The senior secured credit facilities will consist of a \$1 billion revolver/letter of credit facility due in 5 years, a \$1 billion synthetic letter of credit facility due in 7 years, and a \$3.2 billion term loan B facility due in 7 years. Both the revolving credit facility and the synthetic letter of credit facility will be used to support NRG's working capital needs.

The B1 rating for the \$3.6 billion of senior unsecured notes recognizes the creation of a second lien security

structure that will be offered to NRG counterparties for satisfying mark-to-market collateral requirements. TGN currently provides this form of collateral to certain of its counterparties to satisfy mark-to-market positions in its contracted book. TGN reported in its September 30, 2005 financial statements that the size of the second lien was in excess of \$2 billion due to the difference between market prices for electricity and the prices entered into by TGN under contract. Moody's believes that the size of this second lien could increase after the merger is completed given the additional NRG capacity that would be added, but also believes that any increase may be tempered by the fact that existing TGN hedges will expire and will be replaced by new hedges that are likely to be closer to the market price of electricity. Moody's also notes that a claim under the second lien can only occur if NRG fails to deliver power to a counterparty under contract. While the likelihood of a performance related default is low, particularly for a company that operates a large and geographically diverse generating fleet, NRG's ownership of nuclear assets increases the possibility of a claim occurring should an unplanned nuclear outage occur due to the extended timeframe that often accompanies nuclear outages.

The SGL-2 Speculative Grade Liquidity rating for NRG reflects Moody's expectation for maintenance of a good liquidity position for the near term. The downgrade of the Speculative Grade Liquidity rating to SGL-2 from SGL-1 reflects the increased use of working capital by NRG to operate its current business as nearly \$600 million of cash has been utilized to secure mark-to-market positions with various counterparties. Additionally, NRG intends to utilize about \$400 million of cash to complete the merger with TGN thereby making use of a substantial portion of the company's unrestricted cash. While approximately 50% of the cash pledged to counterparties will be returned to NRG during the first part of 2006, Moody's expects NRG's liquidity in the future to be more dependent on credit availability under its revolving credit and letter of credit facility and believes that unrestricted cash balances are likely not to be as robust as they have been in the recent past.

The stable rating outlook reflects Moody's expectation that NRG's cash flow generation is likely to be fairly predictable, given the existing contracts in place and an expectation for relatively high wholesale power prices in the key markets served by NRG. Such cash flow generation should facilitate a decline in total adjusted debt to 55% of total consolidated capitalization. Limited prospects exist for the company to be upgraded in the near-term given the amount of incremental debt incurred to finance the TGN acquisition. The rating could be downgraded if the company does not de-lever its balance sheet as expected or chooses to pursue additional growth opportunities through a large acquisition or if extended outages were to occur at one or more of NRG's large generating facilities, resulting in increased operating expenses and higher replacement power costs to satisfy existing contracts in place.

Under the terms of the TGN acquisition, NRG will acquire the stock of TGN for approximately \$5.8 billion, comprised of about \$4 billion in cash and \$1.8 billion in common and preferred stock, and will assume approximately \$2.5 billion of TGN debt. Of the \$5.8 billion of consideration, about \$2.5 billion of additional debt will be issued at the NRG level and \$1.8 billion of common and preferred equity will be issued to the existing sponsors, an investment partnership owned by subsidiaries of Kohlberg Kravis Roberts & Co., Texas Pacific Group, the Blackstone Group and Hellman & Friedman. The remaining \$1.5 billion will be sourced by the issuance of \$1 billion of NRG common stock and the issuance of \$500 million of mandatory convertible preferred securities. After completion of the transaction, TGN's existing sponsors will own about 15% of the consolidated NRG. Proceeds from the bond financing will be placed in escrow until all terms and conditions of the acquisition have been satisfied. At merger closing, funds will be released from the escrow account to repay all of the existing secured and unsecured debt at NRG and TGN. NRG has secured consents from existing bondholders at NRG and at TGN to tender for these securities upon completion of the merger.

The transaction is subject to the approval from the Nuclear Regulatory Commission, having received approval from the Federal Energy Regulatory Commission, and having been reviewed under the Hart-Scott-Rodino Act. The transaction is scheduled to close sometime during the first quarter 2006.

NRG's ratings upgraded include:

- Corporate Family Rating, upgraded to Ba3 from B1;
- \$950 million First Lien Revolver and Term Loan B, upgraded to Ba2 from Ba3.
- 8.0% Second Lien Debt due 2013, upgraded to Ba3 from B1.

Moody's will withdraw the rating on NRG's \$950 million Revolver and Term Loan and its 8.0% Second Lien Notes upon consummation of the TGN acquisition.

Headquartered in Princeton, New Jersey, NRG is an independent power producer that owns and operates a portfolio of power-generating facilities, primarily in the Northeast, South Central and West Coast regions of the United States. NRG also has ownership interests in generating facilities in Australia and Germany.

Headquartered in Houston, Texas, TGN is one of the largest wholesale electric power generating companies in the United States, and owns approximately 11,000 MW of net operating generation capacity. The company sells power and related services in ERCOT.

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Rating Action: NRG Energy, Inc.

MOODY'S AFFIRMS NRG ENERGY (B1 CORPORATE FAMILY RATING) AND TEXAS GENCO (Ba3 CORPORATE FAMILY RATING) FOLLOWING MERGER ANNOUNCEMENT; OUTLOOK FOR NRG CHANGED TO DEVELOPING FROM STABLE; TEXAS GENCO OUTLOOK REMAINS STABLE

Approximately \$6.3 Billion of Debt Securities Affected

New York, October 04, 2005 – Moody's Investors Service affirmed the ratings of NRG Energy, Inc. (NRG: B1 Corporate Family Rating) and Texas Genco, LLC (TGN: Ba3 Corporate Family Rating). This action follows the announcement that NRG has agreed to acquire all the outstanding equity of TGN for about \$5.8 billion and the assumption of about \$2.5 billion of TGN net debt. The rating outlook for NRG is revised to developing from stable. The rating outlook for TGN continues to be stable.

The affirmation of NRG's ratings reflects an expectation of relatively predictable cash flow following the completion of the merger, based upon margins that are supported by various hedges or contracts at both companies. Over the next several years, about 80% of the company's consolidated margins are expected to be derived under contractual or hedged arrangements. Moody's expects that the ratio of consolidated funds from operations (FFO) to consolidated adjusted debt will exceed 13% over the next several years. The rating affirmation also incorporates the increased degree of diversity in markets, fuel mix, and generating capacity that will result from the merger.

NRG's ratings also consider the planned increase in consolidated leverage in the merger transaction. The company's preliminary financing plan includes approximately \$2.5 billion of incremental debt and issuance of about \$3.3 billion of equity of which \$1.8 billion will be issued to the existing TGN owners and \$1.5 billion will be issued to the public. NRG's management has stated that it will manage its business around a capital structure goal of net debt to total capital in the range of 45% to 55%. While the capital structure of the combined company will likely exceed this goal at closing, the company expects to move within its target range within the first year of operations by using excess cash flow to reduce debt.

The developing rating outlook for NRG reflects the uncertainty about the components of the final capital structure at NRG. The sizing and terms of various debt classes and the use of second liens to collateralize mark-to-market positions with counterparties are factors that could impact the notching between various securities in the company's capital structure.

The rating affirmation and stable rating outlook at TGN reflects the expectation that a high proportion of the company's cash flows will be derived under contractual or hedged arrangements for its well positioned fleet of generating assets. It is expected that NRG will retire all of the TGN debt at closing and replace it with debt issued at the NRG level. The rating and outlook also consider the low cost competitive position of TGN's assets within ERCOT, the lack of incremental debt at TGN, and an expectation that additional intermediate hedges will be executed as the pool of existing hedges ages.

Under the terms of the transaction, NRG will acquire the stock of TGN for approximately \$5.8 billion, comprised of about \$4 billion in cash and \$1.8 billion in common and preferred stock, and will assume approximately \$2.5 billion of TGN net debt. Of the \$5.8 billion of consideration, about \$2.5 billion of additional debt will be issued at the NRG level and \$1.8 billion of common and preferred equity will be issued to the existing TGN owners, investment partnerships managed by subsidiaries of Kohlberg Kravis Roberts & Co., Texas Pacific Group, the Blackstone Group and Hellman & Friedman. The remaining \$1.5 billion will be sourced by the issuance of \$1 billion of NRG common stock and the issuance of \$500 million of mandatory convertible preferred securities. After completion of the transaction, TGN's existing owners will own about 25% of the consolidated NRG.

The transaction is subject to the approval from the Nuclear Regulatory Commission, the Federal Energy Regulatory Commission, the Public Utility Commission of Texas (if required) and antitrust review under the Hart-Scott-Rodino Act. No shareholder approval is required. The transaction is scheduled to close sometime during the first quarter 2006.

Ratings affirmed at NRG include:

- Secured term loan and secured revolving credit rated Ba3;

- Corporate Family Rating at B1;
- Second lien secured notes rated B1;
- Preferred stock at B3;
- Speculative Grade Liquidity (SGL) Rating of SGL-1

Ratings affirmed at TGN include:

- Secured term loan and secured revolving credit rated Ba2;
- Corporate Family Rating at Ba3;
- Senior unsecured notes rated B1;
- Speculative Grade Liquidity (SGL) Rating of SGL-2

Headquartered in Princeton, New Jersey, NRG is an independent power producer that owns and operates a portfolio of power-generating facilities, primarily in the Northeast, South Central and West Coast regions of the United States. NRG also has ownership interests in generating facilities in Australia, Germany and the United Kingdom.

Headquartered in Houston, Texas, TGN is one of the largest wholesale electric power generating companies in the United States, and owns approximately 11,000 MW of net operating generation capacity. The company sells power and related services in ERCOT.

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Announcement: NRG Energy, Inc.

MOODY'S AFFIRMS THE DEBT RATINGS OF NRG ENERGY, INC. FOLLOWING ANNOUNCEMENT OF \$250 MILLION SHARE REPURCHASE PROGRAM; RATING OUTLOOK IS STABLE

Approximately \$2.7 Billion of Debt Securities Affected

New York, August 09, 2005 – Moody's Investors Service has affirmed all of the debt ratings of NRG Energy, Inc. (NRG: B1 Corporate Family Rating (formerly known as Senior Implied Rating) following the company's announcement to utilize cash on hand to repurchase \$250 million of NRG's common stock and to use the proceeds of a \$250 million privately placed convertible preferred offering to repurchase a portion of NRG's 8.0% \$1.35 Billion in second lien secured notes. The rating outlook is stable.

The rating affirmation reflects the continuation of strong cash flow being generated from the company's well-placed merchant power fleet as NRG's cash from operations is expected to comfortably cover all capital needs during 2005. While unrestricted cash on hand is expected to decline by about \$250 million following the completion of both transactions to around \$570 million, unrestricted cash on hand is expected to grow to around \$750 million during the remainder of 2005, due in large part, to the accumulation of operating cash flow from NRG's electric business. Factoring in the approximate \$325 million of availability expected under NRG's working capital facilities, NRG's total liquidity is anticipated to be in excess of \$1.1 billion at year-end 2005. The rating affirmation considers the increase in consolidated leverage that will occur at NRG as adjusted consolidated leverage, which includes the \$797 million of non-recourse project debt and treats NRG's preferred securities as 75% debt, is expected to be around 60%. NRG's consolidated leverage is expected to trend downward due to the repayment terms under the company's secured term loan as well as the scheduled amortization under various project finance transactions. Additionally, collateral protection for second lien note holders should improve from the issuance of the preferred securities, as the amount of second lien debt is expected to decline by around 17% after the transaction is completed.

Moody's expects NRG's funds from operations for 2005 and for the next several years to remain at or above 10% of total consolidated debt under most reasonable scenarios. Moody's also notes that while the company's cash flow can be impacted by volatility in energy prices, the majority of its merchant energy cash flows are sourced from the company's coal fired assets located in the New York Power Pool and in the Pennsylvania New Jersey Maryland Interconnect. These assets largely burn lower cost Western coal and the margins from these coal assets are expected to be substantially hedged for 2005 and 2006. Moreover, NRG's higher heat rate, less efficient natural gas and oil plants tend to be somewhat protected from the more efficient natural gas entrants in the near-term, as a number of these plants serve transmission constrained load pockets and are expected to continue to receive capacity payments for availability and regional reliability for the next several years.

The stable rating outlook reflects Moody's expectation that NRG's cash flow generation will be relatively stable, representing at least 10% of total consolidated debt, and that leverage will decline over the next several years. Given NRG's fairly conservative capital structure, an expected downward trend in leverage, and the company's ability to generate fairly predictable cash flows, NRG's rating is well positioned in this rating category relative to other independent power producers. The rating could be upgraded if NRG continues to execute on its business plan over a sustainable timeframe including financing any growth opportunities in a reasonably conservative fashion. While the near-term prospects for a downgrade appear limited, the rating could be downgraded should growth opportunities be financed with substantial leverage or if sustainable cash flow to total debt declines to around 7 to 8% caused by NRG incurring higher debt, or operating cash flow declining due to higher than anticipated operating expenses or lower than anticipated spark spreads.

Ratings affirmed include:

- Secured Term Loan due 2011 and secured Revolving Credit due 2007 rated Ba3;
- Corporate Family Rating (formerly known as Senior implied rating) at B1;
- 8.0% second lien secured notes due 2013 at B1;
- Preferred Stock at B3;

- Speculative Grade Liquidity (SGL) Rating of SGL-1

Headquartered in Princeton, New Jersey, NRG is an independent power producer that owns and operates a portfolio of power-generating facilities, primarily in the Northeast, South Central and West Coast regions of the United States. Its operations include baseload, intermediate, peaking, and cogeneration facilities, thermal energy production and energy resource recovery facilities. NRG also has ownership interests in generating facilities in Australia, Germany and the United Kingdom.

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P065 Equity CRPR

Related Functions Company Tree Ratings CREDIT PROFILE

NRG Energy Inc

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| | | | | | |
|-----------------------------|--------|------------------------|--|------|--------|
| MO | | LT Local Issuer Credit | | -S&P | |
| 1) Outlook | | | | | STABLE |
| 2) Issuer Rating | RATING | EFFECTIVE | | | B |
| 3) Senior Secured | B+ | 12/ 9/03 | | | BB |
| 4) LT Corp Fam | | | | | B+ |
| 5) Bank Loan D | | | | | CCC+ |
| 6) Senior Unse | | | | | |
| 7) Preferred S | | | | | |
| STANDARD | | | | | |
| 8) Outlook | | | | | |
| 9) LT Foreign | | | | | |
| 10) LT Local Is | | | | | |
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| 12) ST Local Is | | | | | |
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NRG Energy Inc

Page 1/1

| | | | |
|-----------------|------------------------|-------------|--------|
| MO | ST Local Issuer Credit | | -S&P |
| 1) Outlook | RATING | EFFECTIVE | STABLE |
| 2) Issuer Rati | B-2 | 6/12/06 | B |
| 3) Senior Secu | B-2 | *- 6/ 1/06 | BB |
| 4) LT Corp Fam | B-2 | 1/ 5/06 | B+ |
| 5) Bank Loan D | B-1 | *- 10/ 3/05 | CCC+ |
| 6) Senior Unse | B-1 | 4/19/05 | |
| 7) Preferred S | | | |
| STANDARD | | | |
| 8) Outlook | | | |
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UP / DOWN / NEUTRAL
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RESEARCH

Presale: NRG Energy Inc.

Publication date:

09-Jan-2006

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Arleen Spangler, New York (1) 212-438-2098;
arleen_spangler@standardandpoors.com**Corporate Credit Rating**

B+/Stable/B-2

Outstanding Rating(s)**Presale: NRG Energy Inc.**

Sr secd debt

Local currency

BB/Watch Dev

Pfd stk

Local currency

CCC+/Watch Dev

Texas Genco LLC

Corporate Credit Rating

BB-/Stable/--

Sr unsecd debt

Local currency

B

Sr secd debt

Local currency

BB

Corporate Credit Rating History

| | Local Currency | Foreign Currency |
|----------------|-------------------|---------------------|
| June 24, 2002 | BBB | BBB |
| July 26, 2002 | BB | BB |
| Aug. 7, 2002 | B+ | B+ |
| Aug. 29, 2002 | CCC | CCC |
| Sept. 16, 2002 | D | CC |

Rationale

On Jan. 5, 2006, Standard & Poor's Ratings Services affirmed its 'B+' corporate credit rating on power generation company NRG Energy Inc. The rating affirmation follows the company's announcement that it will issue various securities to finance its planned acquisition of Texas Genco LLC.

At the same time, Standard & Poor's lowered its short-term rating on NRG to 'B-2' from 'B-1' and removed the rating from CreditWatch with negative implications. This rating action reflects the fact that NRG has a business strategy that includes acquisitions, which will tend to use cash, and that cash may be used when NRG is called upon to post cash margin in a volatile commodity price environment. The short-term rating was originally placed on CreditWatch Oct. 3, 2005.

Standard & Poor's also assigned the following ratings to NRG's proposed debt issues:

- 'BB-' rating and '1' recovery rating to NRG's \$3.2 billion first lien term loan B and \$2 billion revolving credit and LOC facilities,
- 'B-' rating to NRG's \$3.6 billion unsecured notes, and
- 'CCC+' rating to NRG's \$500 million mandatory convertible securities.

The 'BB-' rating and '1' recovery rating on the \$3.2 billion term loan B and \$2 billion revolving credit and LOC facilities indicate the expectation of full recovery of principal in the event of a payment default.

Standard & Poor's affirmed its 'CCC+' ratings on NRG's preferred stock issues. The ratings on NRG's existing second lien notes and its term loan B as well as the ratings on Texas Genco's unsecured notes

and term loan will be been withdrawn once the acquisition closes.

NRG is engaged in the ownership and operation of power generating facilities, primarily in the U.S. merchant power market, thermal production and resource recovery facilities, and various international independent power producers.

The 'B+' corporate credit rating on NRG reflects the following risks:

- About 85% of the cash available for debt service is exposed to U.S. merchant power markets; these cash flows have the potential to exhibit high volatility. U.S. power markets remain immature, exhibit regulatory and political uncertainty, and lack liquidity.
- While Texas Genco has hedged in excess of 80% of its gross margin for the next three years, it is still exposed to operational risk (such as a major hurricane or operational problems at the South Texas Project). The hedges are structured as liquidated damage contracts, so Texas Genco would have to perform even if the plants were down for operational problems.
- NRG's purchase price for Texas Genco is high at \$746/kW (\$1,594/kW for the baseload assets alone). As a result, the company must continue to generate significant cash flow to repay debt maturities.
- Assets are concentrated in certain regional markets, particularly Texas and the Northeast. These assets are primarily baseload coal and nuclear units, have high fixed costs, but generate significant cash flow when natural gas prices are high.
- NRG has bullet maturities that it will have to refinance beginning in 2013 (the revolver matures in 2011). In the interim, the lenders have the option of accepting prepayments under the cash sweep mechanism and therefore deleveraging may not occur as quickly as NRG has projected.
- Hedging transactions in the merchant power and fuel markets demand substantial liquidity for collateral posting requirements as hedge positions move out of the money. This is especially the case for companies with speculative-grade ratings.
- There is double leverage at certain projects, which diminishes cash available for debt service at the NRG corporate level.
- The retail load obligation at Louisiana Generating, one of NRG's major subsidiaries, may not, during certain high demand periods, be 100% supplied by the coal-fired plants in the South Central region. As a result, NRG must purchase higher priced power in the market while remaining obligated to supply power at fixed prices.
- Debt coverage ratios are low under stress scenarios. The company's base case projected coverages are strong for the rating level, but rely on the current continued high natural gas prices and an improvement in capacity pricing in certain markets NRG operates in. Under NRG's financial projections, about 12% of its EBITDA is from capacity payments, which are uncertain and viewed as speculative cash flow by Standard & Poor's because of their volatility and difficulty to forecast.
- Under Standard & Poor's low-price case, which incorporates \$3.75/million Btu natural gas price beginning in 2007, coverages remain consistent with the rating level.
- In order to grow earnings per share, NRG has a business strategy that could include additional acquisitions of merchant power generation assets.

The following strengths mitigate the above risks at the 'B+' rating level:

- NRG has had two years of good financial performance with adjusted funds from operations (FFO) interest coverage of about 3x. The improvement in cash flow was primarily driven by high natural gas prices that allowed NRG to maintain high margins at its coal plants. In addition, the capacity market in New York City continued to be strong.
- With the Texas Genco acquisition, NRG will have a significant portion of its cash flow hedged through 2009 (on average 50%), resulting in more stable and predictable cash flow.
- Louisiana Generating, a wholly owned subsidiary and a stable and predictable source of cash flow, provides approximately 7% of overall cash flow.
- NRG has exhibited a stable operating record with plant availability at about 88% for the past three years.
- NRG has worked consistently over the past two years to exit projects that have no strategic importance. NRG currently has about \$1 billion of nonrecourse debt that can be viewed as strictly nonrecourse (this amount will be reduced to \$750 million once the sale of Audrain closes).

Short-term credit factors

The short-term rating on NRG is 'B-2'. NRG's short-term credit quality is relatively strong compared with

speculative-grade issuers, with sufficient cash currently to fund its maintenance capital expenditures and collateral calls under its hedging arrangements assuming various stress scenarios. Post-merger, NRG will have about 50% of its gross margin hedged through 2009 and no maturities until 2013, with the revolver maturing in 2011. Under the terms of the term loan B, NRG has an excess cash flow sweep, but acceptance of prepayments is at the option of the lender, so deleveraging may not occur as quickly as the company has proposed.

NRG may be faced with liquidity calls in the form of collateral posting for hedged positions that may move out of the market. Over the last year, these movements have been in the range of an additional \$30 million to \$900 million, driven primarily by high natural gas and power prices. As of Sept. 30, 2005, NRG maintained adequate liquidity with a margin based on Standard & Poor's liquidity stress analysis, which stresses the commodity prices by 15% in the near term and 20% in the far term. With the proposed merger and recapitalization, NRG should also have sufficient liquidity as the company will have the ability to pledge assets to counterparties on a second lien basis. This will add to the company's sources of liquidity.

NRG's capital expenditure budget is faced with little volatility in the short term. Cash flow volatility should also be minimal, as NRG has hedged a large portion of its revenues and expenses.

As of Sept. 30, 2005, NRG had total cash of \$595 million, of which \$91 million was restricted. Post-merger, NRG expects to maintain a cash balance of approximately \$500 million. This may fluctuate with market movements if cash margin is called.

Once the Texas Genco transaction closes, NRG will not need any external funding for the next 12 months. Nevertheless, given its current business strategy, we may see the company re-leverage or make certain acquisitions. NRG's longer-term credit quality will be determined by the price of power in the regional power markets and by the ability of NRG to reduce or refinance debt.

Recovery analysis

The 'BB-' rating on NRG's first priority secured term loan B and revolving credit facility is one notch above the corporate credit rating on the company. This is because under Standard & Poor's recovery analysis, the asset values provide the first priority term loan B and revolving credit facility lenders with the expectation of full recovery of their principal in each downside scenario. The recovery rating on the facilities is '1'.

Security interests for the term loan B and revolving credit facility comprise first priority liens against all tangible and intangible assets of all subsidiaries of NRG that are not prohibited from issuing liens, all of the equity interests in these subsidiaries to the extent possible, and 66% of the equity interest in all foreign subsidiaries that are not prohibited from issuing liens. NRG's restricted subsidiaries (all of NRG's subsidiaries at closing), also guarantee the loan.

Standard & Poor's valuation is based on one method for estimating enterprise value, a discounted cash flow (DCF) method. In Standard & Poor's view, the most likely default scenario will be a low power and natural gas price scenario (natural gas prices at \$3.75/million Btu), capacity values that remain depressed, and power markets that do not reach supply/demand equilibrium until the next decade. Under this scenario, a default could occur in 2010, after the Texas Genco hedges mature.

Standard & Poor's DCF analysis used after-tax, before debt service cash flows discounted by a 10% discount factor. This discount factor, in our opinion is lower than the weighted average cost of capital for a merchant generator. However, the cash flow projections that we used in our analysis assume low cash flow so the discount factor is reasonable.

Under our default scenario, the first lienholders receive 100% recovery.

Outlook

The stable outlook reflects Standard & Poor's view that NRG's credit quality should not significantly deteriorate in the short term. In the near term, NRG should continue to benefit from high commodity prices and the hedges the company has in place at Texas Genco. If NRG successfully integrates the Texas Genco acquisition, commodity prices remain high, and NRG deleverages its capital structure as it has presented in its base case, Standard & Poor's could revise the outlook to positive or upgrade the company. On the other hand, if the company continues a growth strategy financed with debt and cash flows deteriorate, Standard & Poor's could revise the outlook to negative or downgrade the company. Longer term, NRG remains exposed to the high business risk of operating as predominantly a merchant generator where cash flows may be volatile, which will limit upgrade potential.

Rating Methodology

NRG is rated based on a consolidated methodology; however, particular attention is given to any restrictive covenants that exist at nonrecourse project subsidiaries. Project subsidiaries that have nonrecourse debt and are viewed by Standard & Poor's as truly stand alone are analyzed based on distributable cash flow rather than consolidated. Table 1 presents the subsidiaries that Standard & Poor's has viewed on a nonrecourse basis and analyzed based on their distributable cash flow.

Table 1

NRG Energy Inc. Subsidiaries' Nonrecourse Debt

| Consolidated projects with nonrecourse debt | NRG's share of principal debt outstanding as of Sept. 30, 2005 (\$ mil.) | Final maturity | Cash flow contribution (%) |
|---|--|----------------|----------------------------|
| NRG Peaker Finance Co. | 242 | June 2019 | 0 |
| Flinders, Australia | 188 | September 2017 | 3.0 |
| Camas Power Boiler L.P. | 7 | July 2007 | 0 |
| NRG Energy Center (thermal) | 118 | August 2017 | 1.0 |
| Saale Energie GmbH (Schkopau, Germany) | 230 | December 2022 | 3.0 |
| Audrain* | 240 | December 2023 | 0 |
| Total | 1,025 | | 7.0 |

*Audrain was sold as of Dec. 19, 2005 and will be removed from balance sheet once the transaction closes in the second quarter of 2006.

The first step in Standard & Poor's analysis is an assessment of NRG's overall business risk. This takes into account management's strategy and analyzes the company's fundamental operating characteristics and competitive advantages or disadvantages. This analysis incorporates an evaluation of a company's prospective ability to grow its business, competitive position, and scope of the market segment.

The second step is an assessment of the company's financial profile. This analysis incorporates the historical operating performance of the company in terms of plant availability measures, risk tolerance, and ability to improve operating statistics. The level of diversification in the portfolio and an analysis of financial measures are also considered. Our earnings analysis focuses primarily on growth and sustainability measures. Cash flow adequacy is judged based upon historical and projected cash flow coverage ratios including FFO interest coverage and cash flow to adjusted total debt. Our analysis of the capital structure includes debt leverage compared with cash flow volatility, debt maturity schedules, exposure to interest rates and foreign exchange rates, off-balance-sheet obligations and other contingent liabilities. The capital structure analysis reviews the company's need for funds and the ability of the company to fund new investments internally. The last part of the financial analysis evaluates the company's liquidity, including its maturity schedule, ability to access capital, including bank lines of credit, capacity and willingness to issue common equity, and matching of asset life with financing tenors.

Business Profile

NRG has a business profile of '9' which is vulnerable (business profiles are categorized from '1' (excellent) to '10' (vulnerable)). This score reflects the weakness inherent in operating as a wholesale electricity provider not subject to traditional rate of return regulation. The score also reflects weak markets and an uncertain regulatory framework for the wholesale business. While NRG's business risk is tempered by some diversity across regions, fuel and asset type, the concentration of cash flow in merchant generation cannot be overlooked and outweighs any diversification benefits NRG may otherwise have.

Regulation

NRG's wholesale segment is subject primarily to FERC regulation; however, market dynamics and rules are largely regionally controlled as well. FERC is contemplating instituting a standard market design across the country; however, this has been disputed by many market participants and will likely not be instituted any time soon. There remains uncertainty as to how capacity market will be designed, especially in Connecticut, where NRG currently receives cost based payments for its assets.

Markets and competitive position

NRG owns and operates various power generation facilities, thermal production facilities, and resource recovery facilities. Post-merger, NRG will have net ownership interests in an aggregate capacity in operating facilities of 26,234 MW, of which 24,171 MW is U.S. based and 2,063 MW is international. NRG continues to sell nonstrategic assets. Most recently, NRG sold Audrain for total proceeds of \$115 million and the assumption of \$240 million of debt. This transaction is expected to close in the second quarter

2006.

While post merger NRG's asset portfolio will be somewhat diversified geographically and by fuel and dispatch type, the portfolio will be heavily concentrated in the merchant market. NRG also has significant geographic concentration, with approximately 50% of its projected EBITDA contributed from the Texas market and about 32% contributed by assets in the Northeast. While there is geographic concentration, there are a number of assets within these markets, with the Northeast more diverse with 16 assets and Texas less diverse with only four assets that contribute cash flow. With the Texas Genco acquisition, NRG has lowered its exposure to peaking assets. In 2004, NRG's exposure to peaking assets was 40% versus only 26% once the Texas Genco acquisition closes.

Standard & Poor's still views merchant cash flows as uncertain and speculative, which suffer from overcapacity, lacks liquidity, and exhibits significant regulatory and political uncertainty. Standard & Poor's does not foresee many U.S. regional power markets returning to equilibrium until the end of the decade or beyond.

With the Texas Genco acquisition, NRG has also increased its hedged cash flows to 56% of total EBITDA, on average over the next five years. This is viewed as positive for credit quality, so long as NRG can maintain and operate the plants at high availabilities. Nevertheless, the volatile nature of the cash flow stream to service the post-merger NRG bonds and the high fixed costs detract from credit quality over the longer term if deleveraging does not occur as planned.

Tables 2 through 5 present NRG's post-merger cash flow by cash contribution, geography, fuel type and dispatch type.

Table 2

Top EBITDA And Gross Margin Contributors

Five-year average contribution (%)

NRG Energy Inc.*

| | |
|----------------------|------|
| Texas Genco | 54.4 |
| Louisiana Generating | 6.8 |
| Dunkirk | 6.8 |
| Oswego | 4.0 |
| Indian River | 3.7 |
| Huntley | 3.6 |
| Arthur Kill | 3.4 |
| Australia | 3.6 |
| Other International | 3.5 |
| Power Marketing | 2.8 |
| Total | 92.6 |

Texas Genco¶

| | |
|---------------------|-------|
| W.A. Parish | 43.0 |
| Limestone | 32.0 |
| South Texas project | 23.0 |
| Gas | 2.0 |
| Total | 100.0 |

*Contribution in terms of EBITDA. ¶Contribution in terms of gross margin.

Table 3

NRG Energy Inc. Geographic Diversification By Region

| Region | 2006 gross margin |
|---------------|--------------------------|
| Texas | 49 |
| Northeast | 32 |
| International | 7 |
| Other | 7 |
| South Central | 5 |
| Total | 100 |

Table 4**NRG Energy Inc. Fuel Diversification**

| Fuel type | % of 2006 EBITDA |
|------------------|-------------------------|
| Coal | 65 |
| Nuclear | 14 |
| Oil | 10 |
| Other* | 7 |
| Natural gas | 4 |
| Total | 100 |

*Other includes alternative energy and synergies.

Table 5**NRG Energy Inc. Load Profile By Dispatch Type**

| Dispatch type | % of total MW |
|----------------------|----------------------|
| Baseload | 41 |
| Intermediate | 33 |
| Peaking | 26 |
| Total | 100 |

Operations

The company continues to operate its plants adequately. NRG has instituted a companywide cost and margin improvement program with the goal of increasing return on invested capital. The focus areas will be on improving plant performance, reducing purchasing and other costs, and streamlining processes. NRG will try to improve forced outage rates and heat rates at its plants. Table 6 presents NRG's historic operating statistics, while Table 7 presents Texas Genco's operations.

Table 6**NRG Energy Inc. Fleet Availability**

| Quarter | 2003 | 2004 | 2005 |
|----------------|-------------|-------------|-------------|
| First quarter | 86.3 | 87.2 | 88.7 |
| Second quarter | 84.6 | 85.5 | 84.8 |
| Third quarter | 93.6 | 93.3 | 93.7 |
| Fourth quarter | 84.0 | 84.6 | N.A. |

N.A.--Not available.

Table 7**Texas Genco Availability**

| Plant | Average 2003-2005 |
|---------------------|--------------------------|
| Limestone | 90.8 |
| W.A. Parish | 90.7 |
| South Texas project | 89.5 |

Environmental issues

NRG is subject to a host of environmental laws and regulations at its plants around the world. All of the generating stations are operating under valid environmental permits, however, environmental laws require regular capital expenditures for upgrades, modifications, or pollution control equipment. At the present time, NRG has a maintenance capital budget that includes amounts for compliance with existing environmental laws. NRG has developed a plan for compliance with all currently applicable environmental requirements through 2014. This plan, which focuses primarily on air issues around sulfur dioxide, nitrous oxide and mercury, involves a combination of material capital expenditures on control technologies at many of its facilities and management of its emissions portfolio. As control technologies continue to evolve, NRG may refine its specific environmental plans to reflect the best economic alternative. In the power generation industry in general, various alternatives are available in devising environmental compliance programs, including using emission allowances, implementing additional control technologies, managing the units as a system, or a combination of these strategies, which would allow for one plant to run at full load while the other runs at a lower loads. Arriving at the optimal approach may involve variability in the capital spending budget due to changes in the value of emissions allowances, available technology, and environmental regulation at the federal, state, and regional levels.

Management strategy and execution

Under the leadership of an entirely new management team, NRG's operations and culture have been revamped since it emerged from bankruptcy protection in 2003. NRG is transitioning away from being a development company toward an operating company with an emphasis on profitability and liquidity. The company has a growth appetite as evidenced by the recent Texas Genco acquisition. NRG may be challenged to integrate this large acquisition, however, the acquisition should generate significant cash flow while natural gas prices are high.

NRG still has what Standard & Poor's would characterize as a high-risk tolerance in terms of commodity market and price risk and financial risk, but lower risk tolerance in terms of institutional and sovereign risk. NRG has historically earned returns that are not commensurate with a higher-risk profile. In our view, the company, because of its focus on generating assets alone, has a less diversified strategy. This concentrates the risk and volatility of the cash flow, as there are no other cash flow sources to temper the potential cash-flow volatility.

Furthermore, in our view, the company's strategy may be confronted in the future with slower growth prospects as it operates in the evolving power commodity markets. This could bring corporate growth rates and returns to lower levels than what NRG may foresee and encourage behavior that is more aggressive in order to increase growth rates. Given the core generation-only strategy, NRG may also lack the flexibility to change its strategy if this becomes desirable as opportunities move away from generation.

NRG's financing strategy has markedly changed from reliance in the past on significant nonrecourse project financing to a current capital structure that has more corporate-level debt. Consolidated debt makes up 55% of post-merger NRG's adjusted capitalization.

Domestic Portfolio

Texas Genco

Texas Genco's assets include 5,178 MW of net baseload generating assets (coal and nuclear) and 5,941 MW of net natural gas fired intermediate and peaking assets. The bulk of the revenues are provided from the base load assets. NRG expects Texas Genco to provide, on average, 54% of consolidated cash flow. Texas Genco benefits, through 2009, from hedging transactions that stabilize cash flow.

Northeast

The Northeast portfolio includes generating units in New York, Connecticut, Pennsylvania, Delaware, and Maryland comprising 7,884 MW of net ownership generating assets. The New York, Mid-Atlantic, and New England assets make up the Northeast portfolio, which NRG expects to contribute approximately 25% of overall cash flow.

These assets represent a combination of base load, intermediate and peaking facilities, and NRG expects certain of these assets to contribute significant cash flow going forward. The cash flows from these assets are predominantly merchant. NRG does benefit in New York in that there is a traded capacity market, with particular value in New York City. Standard & Poor's does give some credit to capacity values in New York City; however, since the value is uncertain over the long term, Standard & Poor's has assumed in its sensitivity cases that capacity value reverts to lower capacity values beginning in 2007.

The Mid-Atlantic assets consist of four facilities representing seven small- to medium-sized coal fired steam electric units, three small oil-fired units, and one small natural gas fired and several combustion turbines. The Mid-Atlantic assets also include an ownership share in Conemaugh (3.72%) and Keystone (3.70%), two efficient coal-fired plants. Age of the assets ranges from 21 to 43 years old. Indian River, located on the Delmarva Peninsula has some locational benefit in the short term. The assets all sell power in the PJM and are located close to load concentration areas and transmission interconnections.

West Coast

The West Coast assets consist of four facilities with 36 units, representing 1,050 MW of net ownership generating capacity. These assets are expected to contribute a small portion of NRG's cash flow going forward. NRG purchased the West Coast assets in a joint venture with Dynegy Inc., and have recently announced that they will purchase Dynegy's 50% share in the venture. The assets may have some strategic value given their location and ability to provide ancillary services to the load centers of Los Angeles and San Diego, but this value is uncertain and has not been incorporated in Standard & Poor's sensitivity cases.

Louisiana Generating

Louisiana Generating's assets include 1,946 MW of net ownership generating capacity that it sells to a number of cooperatives in Louisiana under fixed price, all requirements contracts. The contractual

arrangements are 25 year contracts at about 4.01 cents per kilowatt-hour, fully approved for pass through by the Louisiana Public Service Commission. These contracts secure 60% of the revenue stream for the 25-year term. Three out of the four distribution cooperatives that had previously entered into Form C contracts (maturing 2004) have extended their contracts to October 2014. The fourth extended its contract until October 2009. NRG sells any excess power in the open wholesale market. NRG must purchase any needs above the plants' own generating capacity in the open wholesale market.

Louisiana Generating is exposed to the risk of managing the all-requirements nature of the contracts with the cooperatives. Should demand increase significantly during the summer months NRG must ensure that it has adequate power to serve the load. Louisiana Generating had some problems managing this risk in the past. The company is currently managing this risk by contracting with several affiliate peaking assets in the region to more than cover a potential short. Louisiana Generating expects to provide approximately 6% of the ongoing cash flow.

Thermal operations

Thermal operations should provide only 2% of total corporate cash generation. Thermal operations are 100%-owned subsidiaries of NRG. The Minneapolis Energy Center (MEC) accounts for the majority of thermal cash generation. Currently, the MEC provides 100 customers in downtown Minneapolis, Minn. with 1.5 billion pounds of steam per year and 47 customers with 54 million ton-hours per year of chilled water. Over the long term, these customers should remain with MEC not only as a result of the price structure, but also because these customers currently are only equipped to receive heating and cooling through the MEC system, and any change would result in substantial infrastructure costs.

Currently, MEC provides steam and chilled water to each of its customers pursuant to 20-year energy supply agreements. These agreements generally are standard contracts, with a uniform rate structure, consisting of three components: a demand charge (which covers capital costs), a consumption charge (which provides a per unit margin), and an operating charge (which covers fixed and variable costs). Revenues are well matched with expenses, ensuring adequate debt service coverage at the project level.

Resource recovery

Resource recovery represents a small percentage of total corporate cash generation. Recovery operations are composed of NRG's Newport and Elk River Minnesota refuse-derived fuel facilities and service contracts and NRG Processing Solutions, which operates 13 composting and processing sites in Minnesota. The Newport facility, which accounts for a majority of resource recovery cash flows, is the largest component of this business line. NRG's Newport resource recovery facility can process 1,500 tons of municipal solid waste per day. The fuel is used in third-party power generation facilities. The facility has a strong operating record and, since it began commercial operations, has experienced a resource recovery conversion rate of about 85%.

International Projects

Gladstone power station, Australia

Gladstone is a 1,680 MW coal-fired power plant located Gladstone, Australia. Gladstone consists of six units, each with 280 MW capacity, placed in service between 1975 and 1982. NRG owns 37.5% and provides for operations and maintenance of the facility through its wholly owned subsidiary.

In March 1994, the Gladstone facility was acquired from Queensland Electricity Commission (QEC) for A\$750 million. Comalco Ltd., one of the largest industrial companies in Australia, and other participants negotiated the purchase of Gladstone to ensure the uninterrupted supply of electricity to the Boyne Island Smelter's two existing potlines and to ensure that sufficient electricity would be available to permit the addition of a third potline, which was subsequently added in 1997. The Boyne Island Smelter has existing production costs that rank in the lowest quartile of smelters in the world. Much of the QEC's support for this transaction stems from the importance of the smelter expansion to the region's economy.

Gladstone is interconnected to the Queensland region of the national electricity market and is subject to economic dispatch by the Queensland government owned Enertrade (formerly the Queensland Transitional Power Trading Corp.). However, Gladstone is contracted to supply, on a priority basis, the expanded smelter (approximately 50% of output) and the Enertrade. During off-peak periods, much of the smelter's load is supplied by Queensland's state-owned base load facilities with the higher-cost Gladstone facility running at reduced levels. Gladstone has a 35-year power-purchase agreement (PPA) through 2029 with the smelter and Enertrade, which provides for fixed and variable costs. Project coverage of debt service is adequate, averaging 1.5x over Gladstone's debt term.

Flinders, Australia

NRG owns two coal fired power stations totaling 760 MW that are both located in South Australia. Coal is

supplied from the NRG-owned Leigh Creek coal mine, which is approximately 150 miles north of the power stations. NRG closed this acquisition in September 2000 and financed it with 40% nonrecourse debt and 60% equity. The two Australian projects are expected to contribute approximately 3% of overall cash flow.

MIBRAG, Germany

In 1994, NRG acquired an indirect 33% interest in Mitteldeutsche Braunkohlengeschaft mbH (MIBRAG). MIBRAG is a German company that owns three lignite-fired facilities with an aggregate capacity of 238 MW, two lignite mines, and coal dusting plants. NRG owns 119 MW of MIBRAG. MIBRAG accounts for less than 1% of NRG's cash flow. In addition, it is also an important investment in that the MIBRAG mines provide the Schkopau facility (see below) with its coal.

The MIBRAG investment was acquired after a portion of the former MIBRAG industrial complex formerly owned by the East German government was privatized following German reunification. In connection with the acquisition of MIBRAG, the partnership agreed to invest DM1 billion (US\$597 million) from operating cash flow by Dec. 31, 2004 to modernize the existing mines and power generation facilities and develop new open pit mines. The partners agreed to acquire MIBRAG in part because of the planned construction of a 1,600 MW power generation facility in nearby Lippendorf, Germany that would be a significant purchaser of coal from MIBRAG's mines.

Schkopau power station, Germany

Schkopau is a 960 MW lignite-burning power generation facility near Leipzig, Germany. Schkopau was NRG's first greenfield development project. The facility consists of two 425 MW turbines, one 110 MW turbine, and two boiler units. Commercial operations began in 1996 for all units. NRG owns 400 net MW of capacity.

Schkopau sells its electrical generation to Vattenfall Europe Generation (VEG), a major German utility, under a 25-year PPA. Pricing of the PPA consists of three components designed to cover capital costs, operating and variable costs, and fuel supply and transportation costs. Fuel costs are structured to pass through the facility's costs and are adjusted based on the escalation of coal prices under the coal supply agreement.

Fuel is supplied by MIBRAG's profen lignite mine pursuant to a long-term coal supply agreement. Pricing is based on the heat content (Btus) of the coal supplied, adjusted periodically using a fixed escalation factor. NRG expects its international projects, which include MIBRAG and Schkopau, but exclude the Australian projects, to contribute approximately 3% of cash flow.

Financial Risk Profile

Accounting

The financial statements for NRG are prepared according to U.S. GAAP NRG adopted fresh-start accounting when it emerged from bankruptcy in December 2003.

Standard & Poor's has not made significant adjustments to NRG's reported information because NRG does not have many off-balance-sheet obligations. The off-balance-sheet obligations that NRG has relate to nonrecourse project-finance transactions that Standard & Poor's has not consolidated. As stated earlier, about \$1 billion of nonrecourse debt is deconsolidated because it is viewed as truly nonrecourse and nonstrategic.

NRG has given guarantees to certain of its project affiliates and subsidiaries relating to some of their debt, equity, and operating obligations. As of Dec. 31, 2004, NRG's obligations under these guarantees stood at approximately \$230 million. In addition, there were standby letters of credit outstanding as of Sept. 30, 2005 of \$327 million.

Effective from Jan. 1, 2003, NRG adopted SFAS 133, (accounting for derivative instruments and hedging activities), which requires that all derivatives be recognized at fair value in the balance sheet. As of Sept. 30, 2005, the company recorded a loss in other comprehensive income (OCI) of \$433.9 million. As of September 30, 2005 NRG expects \$342.2 million of net losses on derivative instruments accumulated in OCI to be recognized in earnings during the next 12 months.

NRG is involved in a number of legal, environmental and other proceedings before courts and governmental agencies. It is also subject to ongoing investigations by various governmental agencies, including investigations into possible criminal law violations. The outcome of these proceedings are not predictable, and many of these matters involve substantial claim amounts which, in the event of an adverse judgment, could have a material adverse effect on the company's results of operations, financial

condition, and cash flows.

Corporate governance/Risk tolerance/Financial policies

NRG's financial policy is moderately aggressive. In Standard & Poor's opinion, post-merger NRG has a significant amount of debt for a merchant portfolio (approximately \$302/kW including nonrecourse subsidiaries and \$295/kW excluding nonrecourse subsidiaries), with total recourse debt of \$6.9 billion. NRG still conducts a substantial part of its business through direct and indirect subsidiaries, some with debt at the operating level. As a result, to fund debt service and meet other cash obligations at the corporate level, NRG relies on distributions and dividend payments from its subsidiaries. The ability of certain subsidiaries to distribute cash to NRG depends on project profitability and potentially restrictive covenants in the operating company level debt. NRG has significantly reduced its reliance on nonrecourse debt with about \$1 billion out of total debt of \$7.9 billion. NRG's largest cash generating subsidiaries, Texas Genco, South Central, Northeast, and MidAtlantic, are not subject to any restrictive covenants.

Cash flow adequacy

NRG expects to generate wholesale cash flow predominantly from two regions, Texas and the Northeast. NRG expects its FFO to be approximately \$1 billion in 2006, once the Texas Genco acquisition closes. With approximately \$550 million of interest costs, this equates to a ratio of funds from operations to interest of 2.8x, which is easily in line with the rating level. When the cash flows are stressed in the later years once the hedges roll off, for low price scenarios, the coverage ratio declines significantly. Giving no value for capacity revenues results in coverages that are relatively low for the rating level.

Capital structure/Asset protection

NRG's leverage is relatively high on a consolidated basis at roughly 55% of total capitalization. In Standard & Poor's estimation, NRG's financial flexibility is limited. While the financing flexibility of many energy merchant companies has improved dramatically since the period following Enron Corp.'s bankruptcy, investor confidence could diminish easily if there were a catastrophic event. Given the regulatory and political uncertainty of the power markets, this could occur. In our view, NRG's level of leverage is still too high because of the composition of the portfolio, which relies so heavily on capacity values and the continuation of high natural gas prices. NRG will generate significant cash flow if commodity prices remain high. If excess cash flow is used for deleveraging as planned, the capital structure will be strong for the rating level.

Funding requirements over the forecast period are primarily driven by nondeferrable capital expenditures at many of the older facilities and NRG's environmental compliance program. The quality of cash flow, however, is considered weak, as the majority is contributed from merchant generation where NRG is exposed to volatile commodity markets. Although coverages are sufficient under the company's base case, which assumes the continuation of high natural gas prices, should natural gas prices decline, deleveraging after the Texas Genco hedges expire may be a challenge. As such, Standard & Poor's believes debt protection measures are in line with the rating. Standard & Poor's considers ongoing cash flow available to service corporate level debt as speculative. Furthermore, because the loans do not amortize, there is significant refinancing risk down the road. Under NRG base case forecast, sufficient excess cash is generated to prepay the term loan by 2013; however, under a stress scenario there could be significant refinancing risk.

Capital structure/Asset protection

For capital intensive firms such as NRG, Standard & Poor's analyzed the expected capital requirements and compared that with both internally generated cash flow and the company's ability to finance its capital requirements externally. NRG does not have significant capital requirements over the next two years, except for capital expenditures relating to various environmental improvements at plants across all regions. NRG expects to fund all capital expenditures from cash flow from operations.

While NRG emerged from bankruptcy nearly two years ago, the company has endeavored on a growth strategy by acquiring Texas Genco. The Texas Genco acquisition is relatively high at \$746/kW. NRG's business strategy and need to expand the company may lead to less disciplined acquisitions in the future.

NRG has adequate liquidity as evidenced by availability under its bank facilities (\$1 billion revolving credit facility and \$1 billion letter of credit facility) and cash on hand of approximately \$500 million once the proposed refinancing is complete. NRG has used approximately \$900 million for collateral calls, but expects that, as those positions roll off, it would need about \$200 million to \$300 million as a permanent amount for collateral postings. Under a stress scenario this exposure may increase; however, with the new facilities and the ability to pledge assets under a second lien, NRG should have excess cash over collateral.

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RESEARCH

NRG Energy Inc.

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arleen_spangler@standardandpoors.com**Corporate Credit Rating**

B+/Stable/--

Outstanding Rating(s)**NRG Energy Inc.**

Sr secd debt

Local currency

BB

Pfd stk

Local currency

CCC+

Corporate Credit Rating History

| | Local Currency | Foreign Currency |
|---------------|-------------------|---------------------|
| Feb. 16, 2000 | BBB- | BBB- |
| June 24, 2002 | BBB | BBB |
| July 26, 2002 | BB | BB |
| Aug. 7, 2002 | B+ | B+ |
| Aug. 29, 2002 | CCC | CCC |

Major Rating Factors**Strengths:**

- Elimination of significant debt as a result of bankruptcy filing.
- High natural gas prices in today's market will tend to improve company margins.

Weaknesses:

- Exposure to volatile merchant wholesale generation markets.
- Low debt-service coverage ratios under sensitivity cases.

Rationale

Standard & Poor's Ratings Services' rating on NRG Energy Inc. (NRG) is B+/Stable/--. Standard & Poor's also assigned its '1' recovery rating to the term loan B and revolving credit facility, indicating a high expectation of full recovery of principal in a bankruptcy scenario. The second-priority bonds have a '3' recovery rating, indicating that the bondholders can expect to receive meaningful recovery of principal (50% to 80%).

The 'BB' rating on NRG's proposed \$950 million first-priority term loan B and revolving credit facility, maturing 2007 and 2011, respectively, reflects their priority position in a bankruptcy scenario and that the value of the collateral, in many downside scenarios, will be more than adequate for the lenders to recover 100% of principal. On the other hand, the 'B' rating on NRG's second-priority bonds reflects two things: one, under Standard & Poor's analysis, the recovery prospects for the second-lien bonds will fall between 50% and 80%; and two, given the priority of the first-lien debt, the second-lien bondholders have subordinated liens on NRG's collateral. The rating on the second lien reflects refinements in Standard & Poor's application of rating criteria for all corporate second-lien debt and is a change from our application of the criteria in the previous rating. All of NRG's debt issues have the same default rating, because of cross-default provisions that are incorporated in the legal documents.

NRG, previously a 100%-owned subsidiary of Xcel Energy Inc., emerged from bankruptcy on Dec. 5, 2003

and has operated for one year. NRG is engaged in the ownership and operation of power generation facilities, primarily in the U.S. merchant power market, thermal production and resource recovery facilities, and various international independent power producers.

The corporate credit rating on NRG reflects the following risks:

- About two-thirds of the cash available for debt service is exposed to U.S. merchant power markets, which are experiencing depressed market conditions; these cash flows have the potential to exhibit high volatility.
- Regulatory and political uncertainty threatens operating as a merchant generator in U.S. power markets.
- One-third of the assets in terms of MW are peaking assets that will tend to depend more on speculative and uncertain capacity values. NRG expects these assets to contribute 20% of total cash flow.
- There are bullet maturities in 2011 that NRG will have to refinance.
- There is scarcity of ongoing capital to the U.S. merchant power sector. NRG has adequate current liquidity.
- There is double leverage at certain projects (excluding guarantors), which diminishes cash available for debt service at the NRG level.
- 16% of expected EBITDA is from international projects, where monies will be held abroad and repatriated only if needed to support low cash flow scenarios.
- Debt coverage ratios are low under sensitivity cases. The company's base case projected coverages should improve beginning in 2006 (when NRG expects a rebound in the power markets), but much of the improvement will come from capacity values where NRG expects to provide on average 30% of the revenues. Under Standard & Poor's low-price case, coverages remain consistent with the rating level.

The following strengths mitigate the above risks:

- The reorganized NRG reduced liabilities by \$5.2 billion in debt and \$1.3 billion in other claims in the bankruptcy process.
- NRG successfully sold various assets in 2004, resulting in the removal of more than \$990 million in consolidated debt (Batesville, McClain, and Kendall) and cash proceeds of about \$150 million.
- NRG's 2004 results were good, with the company generating cash flow in excess of projections. The improvement in cash flow was primarily driven by high natural gas prices that allowed NRG to maintain high margins at its coal assets, continued strong capacity markets in New York City, and the benefits of the high-priced California Department of Water Resources contract (CDWR), which expires at the end of 2004.
- While the CDWR contract may be replaced with "reliability must run" contracts in 2005, the cash flow contribution from California will be less.
- Louisiana Generating LLC, a wholly owned subsidiary and stable and predictable source of cash flow, provides about 17% of overall cash flow.
- NRG has exhibited a stable operating record with plant availability at over 90% for the past three years.
- Elimination of about \$2.5 billion in project level debt as part of the Chapter 11 emergence, removes the restricted payments tests and results in better quality of cash flow and liquidity.

Liquidity.

NRG has adequate liquidity demonstrated by availability under its bank facilities and cash on hand. NRG has access to about \$1.1 billion of cash and additional \$350 million available under its revolving credit and LOC facilities. Under a stress scenario, the cash and revolving credit facility sufficiently cover working-capital needs, including collateral calls. In fact, there is excess liquidity, even under commodity price stress scenarios. This excess allows NRG an additional cushion to react to price fluctuations in the market price of power or gas where they may be called on to increase or post new collateral if they hedge for longer periods of time. In addition, while the company does have principal payments due over the next several years, most is due at the project level. The first large repayment at the corporate level is due in 2011.

Recovery analysis.

Standard & Poor's rates the first-priority secured term loan 'B' and revolving credit facility two notches above the NRG's corporate credit rating. By comparison, Standard & Poor's will rate the second-priority bonds one notch lower than the NRG corporate credit rating. This is because, under Standard & Poor's recovery analysis, the asset values provide the first-priority term loan B and revolving credit facility lenders

with the expectation of full recovery of their principal in each downside scenario. By contrast, the second-priority bondholders can expect to receive meaningful recovery of principal.

Security interests for the term loan B and revolving credit facility comprise first-priority liens against all tangible and intangible assets of all subsidiaries of NRG that are not prohibited from issuing liens, all of the equity interests in these subsidiaries to the extent possible, and 66% of the equity interest in all foreign subsidiaries that are not prohibited from issuing liens. NRG's major unencumbered domestic subsidiaries, NRG Northeast, NRG South Central, and NRG Mid Atlantic, also guarantee the loan. The second-priority bonds have a second secured position in substantially all of the same security as the first-priority lenders.

Standard & Poor's valuation is based primarily on one method for estimating enterprise value, a discounted cash flow (DCF) method. Standard & Poor's thinks the most likely default scenario will be a continuing long-term, low-power-price scenario: capacity values that remain depressed or nonexistent and power markets that do not recover until the next decade. Under this scenario, a default could occur before maturity of the term loan.

Standard & Poor's DCF analysis used after-tax, before debt-service cash flows discounted by a 10% discount factor. Under our default scenario, the first lienholders receive 100% recovery, while the second lienholders may receive between 50% and 80% of their principal post-default.

Outlook

The stable outlook reflects Standard & Poor's view that NRG's credit quality should not significantly deteriorate in the short term. NRG has benefited in the past year from high natural gas prices, which have allowed it to maintain high gross margins. There is little room for a ratings upgrade in the near term, based on the high business risk of operating as predominantly a merchant generator where cash flows may be volatile.

Rating Methodology

NRG is rated based on a consolidated methodology. However, particular note is given to any restrictive covenants that exist at nonrecourse project subsidiaries. Project subsidiaries that have nonrecourse debt and are viewed by Standard & Poor's as truly standalone, and are analyzed based on distributable cash flow rather than consolidated. Table 1 presents the subsidiaries that Standard & Poor's has viewed on a nonrecourse basis and analyzed based on their distributable cash flow. These assets represent less than 20% of corporate cash flow.

Table 1

NRG Energy Inc. -- Subsidiaries Viewed on a Nonrecourse Basis

Principal outstanding as of Sept. 30, 2004 (mil \$, NRG share) Maturity

Consolidating projects with nonrecourse debt

| | | |
|-------------------------------|---------|----------------|
| NRG Peaker Finance Co. | 245.0 | June 19, 2004 |
| Flinders | 201.5 | Sept. 12, 2004 |
| Camas Power Boiler LP | 11.1 | July 7, 2004 |
| NRG Energy Center (various) | 127.8 | Aug. 17, 2004 |
| Saale Energie GmbH (Schkopau) | 286.0 | Dec. 20, 2004 |
| Audrain | 240.0 | — |
| Total | 1,111.4 | — |

Nonconsolidating projects with nonrecourse debt

| | | |
|-----------|---------|---------------|
| Gladstone | 92.0 | March 9, 2004 |
| MIBRAG | 137.0 | 2028 |
| | 229.0 | — |
| Total | 1,340.5 | — |

The first step in Standard & Poor's analysis is an assessment of NRG's overall business risk. This takes into account management's strategy and analyzes the company's fundamental operating characteristics and competitive advantages or disadvantages. This analysis incorporates an evaluation of a company's prospective ability to grow its business, competitive position, and scope of the market segment.

The second step is an assessment of the financial profile of the company. This analysis incorporates the historical operating performance of the company in terms of plant availability measures, risk tolerance, and ability to improve operating statistics. The level of diversification in the portfolio and an analysis of financial

measures are also considered. Earnings analysis focuses primarily on growth and sustainability measures. Cash flow adequacy is judged based on historical and projected cash flow coverage ratios including FFO interest coverage and cash flow to adjusted total debt. An analysis of the capital structure includes debt leverage compared with cash flow volatility, debt maturity schedules, exposure to interest rates and foreign exchange rates, off-balance-sheet obligations and other contingent liabilities. The capital structure analysis reviews the company's need for funds and the ability of the company to fund new investments internally. The last part of the financial analysis evaluates the company's liquidity position including its maturity schedule, its ability to access capital, including bank lines of credit, the capacity and willingness to issue common equity, and matching of asset life with financing tenors.

Business Profile

NRG has a business profile of '9' on Standard & Poor's 10-point scale, with '1' the least risky and '10' the most risky. This is a weak score and reflects the weakness inherent in operating as a wholesale electricity provider not subject to traditional rate of return regulation. This score reflects weak markets and an uncertain regulatory framework for the wholesale business. While NRG's business risk is tempered by some diversity across regions, fuel and asset type, the concentration of cash flow in merchant generation cannot be overlooked and outweighs any diversification benefits NRG may otherwise have. NRG's wholesale segment is subject primarily to FERC regulation. However, market dynamics and rules are largely regionally controlled as well. FERC is contemplating instituting a standard market design across the country. However, this has been disputed by many market participants and will likely not be instituted any time soon.

Asset portfolio.

NRG owns and operates various generation facilities, thermal production facilities, and resource recovery facilities. NRG has net ownership interests in an aggregate capacity in operating facilities of 15,481 MW of which 2,158 MW are international. NRG still has several projects for sale. NRG sold various assets during 2004 with total proceeds of about \$150 million.

While NRG's asset portfolio is somewhat diversified geographically and by fuel and dispatch type, the portfolio is heavily concentrated in the merchant market. NRG is also heavily invested in peaking assets. Standard & Poor's defines peaking assets as those that dispatch 10% or less of the time. For NRG, peaking assets comprise about one-third of the overall MW and provide about 20% of NRG's expected cash flow. Standard & Poor's views these cash flows as uncertain and speculative, therefore leaving the company heavily exposed to the vagaries of the merchant power markets, which suffer from overcapacity, lack liquidity, and exhibit significant regulatory and political uncertainty. Standard & Poor's does not foresee many U.S. regional power markets returning to equilibrium until the end of the decade or beyond.

The volatile nature of the cash flow stream to service the NRG bonds and the high fixed costs, both fixed operations and maintenance and debt service, severely detracts from credit quality. Tables 2 through 4 illustrate NRG's cash flow by geography, fuel type, and dispatch type. 72% of NRG's cash flow is contributed by eight assets, which includes Louisiana Generating and the New York plants.

Table 2

NRG Energy Inc. -- Geographic Diversification

| | Percent of MWs |
|-------------------------------|----------------|
| Northeast | 55 |
| South Central | 21 |
| Australia | 10 |
| Other International (Germany) | 4 |
| Other North America | 5 |
| West Coast | 5 |
| Total | 100 |

Table 3

NRG Energy Inc. -- Fuel Diversification

| Fuel Type | Percent of Total MW |
|-----------|---------------------|
| Gas | 43 |
| Coal | 35 |
| Oil | 21 |
| Total | 100 |

Table 4**NRG Energy Inc. -- Load Profile**

| Load Profile | Percent of Total MW |
|---------------------|----------------------------|
| Base | 36 |
| Intermediate | 45 |
| Peaking | 39 |
| Total | 100 |

Management strategy and execution.

Under the leadership of an entirely new management team, NRG's operations and culture have been revamped since filing for bankruptcy protection. NRG is moving away from being a development company and moving toward becoming an operating company with an emphasis on profitability and liquidity.

NRG still has what Standard & Poor's would characterize as a high-risk tolerance in terms of commodity market, price, and financial risk, but lower risk tolerance in terms of institutional and sovereign risk. NRG has historically earned returns that are not commensurate with a higher risk profile. Furthermore, the management team has a limited record of operating other commodity-based competitive businesses, and therefore may be challenged to operate profitably in a volatile commodity business.

In Standard & Poor's view, the company's strategy may be confronted in the future with slower growth prospects as it operates in the evolving power commodity markets. This could bring corporate growth rates and returns to lower levels than what NRG may foresee. Given the core generation-only strategy, NRG may also lack the flexibility to change its strategy if this becomes desirable as opportunities move away from generation.

NRG's financing strategy has markedly changed from reliance in the past on significant nonrecourse project financing to a current capital structure that has more corporate level debt. Corporate level recourse debt makes up 48% of NRG's adjusted capitalization, while total debt equals 58% of total capitalization as of Sept. 30, 2004.

Portfolio Update**Domestic projects.**

Northeast. The NE portfolio includes generation units comprising 7,883 MW, of which about one-third are coal-fired, one third are natural-gas-fired, and one third are oil-fired. These assets represent a combination of base load, intermediate, and peaking facilities in New York State, New York City, Massachusetts, and Connecticut. The Northeast assets also include an ownership share in Conemaugh (3.7%) and Keystone (3.7%) in the PJM region. NRG expects certain of the Northeast assets to contribute significant cash flow going forward. For instance, Astoria, Arthur Kill, Huntley, and Dunkirk will contribute about 30% of cash flow. NRG does benefit in New York in that there is a traded capacity market, with particular value in New York City. Standard & Poor's will credit some capacity value to these assets in the short term, however, as the value is uncertain over the long term, Standard & Poor's has assumed in its sensitivity cases that capacity values revert to lower values after five years. NRG expects the Northeast assets to contribute about 53% of overall cash flow.

West Coast assets. The West Coast assets consist of four facilities with 36 units, representing 2,768 MW of generation capacity, of which NRG owns 1,321 MW. These assets are expected to contribute a small portion of NRG's cash flow. NRG purchased the West Coast assets in a joint venture with Dynegy Inc. (B/Negative/--). The assets benefited in 2004 from a high-priced contract with the CDWR. The contract matures at the end of 2004. Thereafter, the assets may have some strategic values given their location and ability to provide ancillary services to the load centers of Los Angeles and San Diego, but this value is uncertain. This value has not been incorporated in Standard & Poor's sensitivity cases.

Louisiana Generating. NRG closed the acquisition of the fossil-fueled generation assets of Cajun Electric Power Cooperative for a total of about \$1.026 billion. Cajun was a rural electric cooperative that provided wholesale generation and transmission services to a 12-member distribution cooperative under long-term contracts. Cajun's assets include 1,700 MW of generation capacity.

Cajun filed its voluntary Chapter 11 petition in December 1994 following the Louisiana Public Service Commission's (LPSC) ruling that reduced Cajun's rates. The contractual arrangements in place provide that 75% of the distribution co-ops enter into 25-year contracts at about 4.01 cents per kilowatt-hour (kWh), fully approved for pass through by the LPSC. These contracts secure 60% of the revenue stream

for the 25-year term. 40% is merchant of which 30% is energy revenues. Three out of the four distribution cooperatives that had previously entered into Form C contracts (maturing 2004) have extended their contracts to October 2014. The fourth extended its contract until October 2009. NRG sells any excess power in the open wholesale market. Louisiana Generating is exposed to the risk of managing the all-requirements nature of the contracts with the cooperatives. If demand increases significantly during the summer months, NRG must ensure that it has adequate power to serve the load. Louisiana Generating had some problems managing this risk in the past. They are currently managing this risk by contracting with several affiliate peaking assets in the region to more than cover a potential short.

Thermal operations. Thermal operations are largely 100%-owned subsidiaries of NRG. The Minneapolis Energy Center (MEC) accounts for the majority of thermal cash generation. Currently, the MEC provides 90 customers in downtown Minneapolis with 1.5 billion pounds of steam per year and 30 customers with 37 million pounds per year of chilled water. Over the long term, these customers should remain with MEC not only as a result of the price structure, but also because these customers currently are only equipped to receive heating and cooling through the MEC system, and any change would result in substantial infrastructure costs.

Currently, MEC provides steam and chilled water to each of its customers pursuant to 20-year energy supply agreements. These agreements generally are standard contracts, with a uniform rate structure, consisting of three components: a demand charge (which covers fixed costs), a consumption charge (which provides a per unit margin), and an operating charge (which covers variable costs). Revenues are well matched with expenses, ensuring adequate debt service coverage at the project level.

Resource recovery. Recovery operations are composed of NRG's Newport facilities and service contracts. The Newport facility, which accounts for a majority of resource recovery cash flows, is the largest component of this business line. NRG's Newport resource recovery facility can process 1,500 tons of municipal solid waste per day, of which 92% is recovered as fuel or recycled. The fuel is reused in generation facilities. The facility has a strong operating record and, since it began commercial operations, has experienced a resource recovery rate of about 90%.

International projects.

Gladstone power station, Australia. Gladstone is a 1,680 MW, coal-fired power plant in Gladstone, Australia. Gladstone consists of six units, each with 280 MW of capacity, placed in service between 1975 and 1982. NRG owns 37.5% and provides for operations and maintenance of the facility through its wholly owned subsidiary.

In March 1994, the Gladstone facility was acquired from the Queensland Electricity Commission (QEC) for A\$750 million. Comalco Ltd. (A+/Stable/A-1), one of the largest industrial companies in Australia, and other participants negotiated the purchase of Gladstone to ensure the uninterrupted supply of electricity to the Boyne Island Smelter's two existing potlines and to ensure that sufficient electricity would be available to permit the addition of a third potline, which was added last year. The Boyne Island Smelter has existing production costs that rank in the lowest quartile of smelters in the world, and access to its own uninterrupted supply of electricity should help to ensure the smelter's low-cost position. Much of the QEC's support for this transaction stems from the importance of the smelter to the region's economy because it is a major employer.

Gladstone will remain interconnected to Powerlink's system and be subject to economic dispatch by the Queensland Transitional Power Trading Corp. (QTPTC). However, Gladstone is dedicated to supply, on a priority basis, the existing smelter, the smelter expansion, and the Powerlink system. Currently, 50% of Gladstone's capacity goes to the smelter and the remainder to the QTPTC. During off-peak periods, much of the smelter's load is supplied by Queensland's state-owned base-load facilities with the higher-cost Gladstone facility running at reduced levels. During peak periods, the Gladstone Power Station reserve margin will be used to supply some of QTSC's load rather than the use of higher-cost, gas turbine plants. This mechanism should keep the incentives to achieve the lowest cost of electricity on Powerlink's system. Gladstone has a 35-year purchased-power agreement (PPA) with the smelter and the QTPTC, which provide for fixed and variable costs. The fixed payments cover operating costs, as well as debt service and ROE. Project coverage of debt service is adequate, averaging 1.5x over Gladstone's debt term.

Flinders. NRG owns two power stations totaling 760 MW that are both in South Australia. NRG closed this acquisition in September 2000 and financed it with 40% nonrecourse debt and 60% equity.

MIBRAG, Germany. In 1994, NRG, Morrison Knudsen Corp. and PowerGen PLC each acquired an indirect 33% interest in Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG). MIBRAG is a German company that owns three lignite-fired facilities with a total capacity of 200 MW and two lignite mines, leases a third lignite mine, and has briquette manufacturing and coal-dusting plants. MIBRAG accounts for

less than 1% of NRG's cash flow. In addition, it is also an important investment in that the MIBRAG mines provide the Schkopau facility with its coal.

The MIBRAG investment was acquired after a portion of the former MIBRAG industrial complex formerly owned by the East German government was privatized following German reunification. In connection with the acquisition of MIBRAG, the partnership agreed to invest DM1 billion (\$597 million) from operating cash flow by Dec. 31, 2004 to modernize the existing mines and generation facilities and to develop new open pit mines. The partners agreed to acquire MIBRAG in part because of the planned construction of a 1,600 MW generation facility in nearby Lippendorf, Germany that would be a significant purchaser of coal from MIBRAG's mines.

Schkopau power station, Germany. Schkopau is a 960 MW, lignite-burning power generation facility near Leipzig, Germany. Schkopau was NRG's first greenfield development project. The facility consists of two 425 MW turbines, one 110 MW turbine, and two boiler units. Commercial operations began in 1996 for all units. NRG owns 200 net MW of capacity.

Schkopau sells its electrical generation to VEAG, a major German utility, under a 25-year PPA. Pricing of the PPA will consist of three components designed to cover capital costs, operating and variable costs, and fuel supply and transportation costs. Fuel costs are structured to pass-through the facility's costs and are adjusted based on the escalation of coal prices under the coal supply agreement. By U.S. standards, the cost of power in the PPA is high, at around seven cents per kWh. However, for the region, it is a relatively low-cost power supplier.

Fuel is supplied by MIBRAG's Profen lignite mine pursuant to a long-term coal supply agreement. Pricing is based on the heat content of the coal supplied, adjusted quarterly using a fixed-escalation factor.

Financial Policy

NRG's financial policy is moderately aggressive. NRG still has a significant amount of debt for a merchant portfolio (about \$240 per kW excluding nonrecourse subsidiaries). In the past, NRG conducted a substantial part of its business through direct and indirect subsidiaries, many with debt at the operating level. This made the quality of the cash flow weaker when compared with companies that did not have restrictive corporate structures or covenants at the operating level. However, after emerging from bankruptcy and operating for one year, NRG has managed to eliminate many of the nonrecourse debt and restrictive covenants at the operating level, and has consolidated much of the debt leverage at the holding company. As a result, the corporate structure has become more transparent. Furthermore, structured NRG's largest cash generating subsidiaries, South Central and Northeast are not subject to any restrictive covenants.

Financial Profile

Accounting.

The financial statements for NRG are prepared according to U.S. GAAP and audited by PricewaterhouseCoopers LLP, who provided an unqualified opinion for year-end 2003. There is a reference, however, to the company's filing for bankruptcy on May 14, 2003, its subsequent emergence from bankruptcy, pursuant to a plan of reorganization, on Dec. 5, 2003 and its adoption of "fresh-start accounting" in connection with the emergence from bankruptcy.

Standard & Poor's has not made significant adjustments to NRG's reported information because NRG does not have many off-balance-sheet obligations. The off-balance-sheet obligations that NRG has relate to nonrecourse project finance transactions that Standard & Poor's has not consolidated. The adjustments Standard & Poor's makes to the financial ratios deal predominantly with power and fuel price assumptions. Certain consolidated subsidiaries for GAAP purposes are also deconsolidated, e.g., Flinders and NRG peakers.

NRG has given guarantees to certain of its project affiliates and subsidiaries relating to certain of their indebtedness, equity, and operating obligations. As of Dec. 31, 2003, the company's obligations under these guarantees stood at \$564 million. In addition, there were standby LOCs outstanding of \$92 million.

Effective from Jan. 1, 2003, NRG adopted SFAS No. 133,

"Accounting for Derivative Instruments and Hedging Activities," which requires that all derivatives be recognized at fair value in the balance sheet. As of Dec. 31, 2003, the combined notional amounts of various long-term power sales contracts, various energy-related commodities financial instruments, and various interest-rate swap agreements were \$3.2 billion, \$521 million, and \$620.5 million, respectively. As

of Sept. 30, 2004, the company expects \$16 million of deferred net losses on derivative instruments accumulated in Other Comprehensive Income to be recognized in earnings during the next 12 months.

NRG is involved in a number of legal, environmental, and other proceedings before courts and governmental agencies. It is also subject to ongoing investigations by various governmental agencies. As of date the outcome of these proceedings are not predictable, many of these matters involve substantial claim amounts which, in the event of an adverse judgment, could have a material adverse effect on the company's results of operations, financial condition and cash flows.

Profitability and cash flow.

NRG expects to generate wholesale cash flow from five regions: New York, New England, Central, Mid-Atlantic, and West. NRG expects to generate about \$350 million of funds from operations (FFO) in 2004. With about \$250 million of interest costs, this equates to a ratio of FFO to interest of 2.4x, which is easily in line with the rating level. When the cash flows are stressed in the later years for low-price scenarios and loss of the CDWR contract (which provided about \$100 million), the coverage ratio declines significantly. Giving no value for capacity revenues after 2006 results in coverages that are relatively low for the rating level.

Capital structure and financial flexibility.

NRG's leverage is high both on a parent-only basis at 48% and on a consolidated basis at roughly 58% of total capitalization. In Standard & Poor's estimation, NRG's financial flexibility is limited. The financing flexibility of almost all energy merchant companies has been impaired by the erosion of investor confidence following the bankruptcy of Enron Corp., accounting irregularities, and allegations of market manipulation. Standard & Poor's thinks that NRG's level of leverage is still too high because of the composition of the portfolio, which relies so heavily on capacity values from its peaking assets. While NRG has recently experienced success with a broad access to an array of capital markets, because speculative-grade capital markets only open for short windows of opportunity, Standard & Poor's believes longer term access to the broad capital markets may be limited. Funding requirements over the forecast period are primarily driven by nondeferrable capital expenditures at many of the older facilities, including emissions allowances. The quality of cash flow, however, is considered weak, as the majority is contributed from merchant generation where NRG is exposed to volatile commodity markets. NRG is not able to hedge long term because of its low credit rating. As a result, while coverages are sufficient under the company's base case, which assumes a near term market recovery, should natural gas prices decline and squeeze coal margins, deleveraging will be a challenge. As such, Standard & Poor's believes debt protection measures are in line with the 'B' rating. Standard & Poor's considers ongoing cash flow available to service corporate level debt as speculative. Furthermore, because the loans do not amortize, there is significant refinancing risk down the road. Under NRG's base case forecast, sufficient excess cash is generated to prepay the term loan by 2011, however, using a low gas and power price scenario, there is little excess cash to prepay the term loan, resulting in refinancing risk in 2011.

Capital needs/Liquidity.

For capital-intensive companies such as NRG, Standard & Poor's analyzed the expected capital requirements and compared them to internally generated cash flow and the company's ability to finance its capital requirements externally. NRG does not have significant capital requirements for the next two years, except for capital expenditures relating to various environmental improvements at plants across all regions. NRG expects to fund all capital expenditures from cash flow from operations.

Standard & Poor's rating assumes that NRG does not make any acquisitions or grow until an adequate capital structure is achieved. While NRG was a growth company with an aggressive development program, that has changed and the company's strategy is to become a good operating company. The company is currently enroute to becoming an operating company generating sufficient cash flow to pay its debt obligations.

NRG has adequate liquidity as evidenced by availability under its bank facilities (\$350 million) and cash on hand of about \$700 million once the proposed refinancing is complete. NRG expects to use some cash and LOC capacity for collateral calls under hedging arrangements. Under a price stress scenario this exposure may increase. However, NRG still will have excess cash over collateral requirements. This excess allows NRG additional cushion to react to price fluctuations in the market price of power or gas where they may be called on to increase or post new collateral.

Table 5

NRG Energy Inc. -- Financial Summary

Industry Sector: Energy Merchant Developers

--Fiscal year-ended Dec. 31.--

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|--|--------------|-----------|----------------|----------------|----------------|
| Rating history | B+/Stable/-- | D/--/-- | BBB-/Stable/-- | BBB-/Stable/-- | BBB-/Stable/-- |
| Sales (mil \$) | 2,120.7 | 2,212.2 | 2,798.6 | 2,018.6 | 432.5 |
| Net income from continuing operations (mil \$) | 2,761.2 | (2,907.7) | 265.2 | 182.9 | 57.2 |
| Funds from operations (FFO) (mil. \$) | (374.0) | 384.2 | 397.6 | 306.1 | 53.5 |
| Capital expenditures (mil \$) | 124.1 | 1,439.7 | 1,322.1 | 223.6 | 94.9 |
| Total debt (mil \$) | 4,537.5 | 9,415.9 | 9,176.2 | 3,805.3 | 2,347.7 |
| Preferred stock (mil \$) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Common equity (mil \$) | 2,437.3 | (696.2) | 2,237.1 | 1,462.1 | 893.7 |
| Total capital (mil \$) | 7,012.1 | 8,749.5 | 11,481.1 | 5,282.1 | 3,255.8 |
| Ratios | | | | | |
| Adjusted EBIT interest coverage (x) | 0.4 | (5.2) | 1.7 | 2.0 | 1.2 |
| Adjusted FFO interest coverage (x) | (0.3) | 0.9 | 1.8 | 2.2 | 1.5 |
| Adjusted FFO/Average total debt (%) | (5.2) | 4.2 | 6.1 | 9.9 | 3.7 |
| Net cash flow/Capital expenditures (%) | (301.4) | 26.7 | 30.1 | 136.9 | 56.4 |
| Adjusted total debt/Capital (%) | 64.9 | 107.6 | 80.0 | 72.1 | 72.4 |
| Return on common equity (%) | 317.2 | (377.4) | 14.3 | 15.5 | 7.8 |
| Common dividend payout (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Table 6

NRG Energy Inc. -- Competitors

Industry Sector: Energy Merchant Developers

| | Average of past three fiscal years | | | | |
|--|------------------------------------|---------------------|-----------------------|---------------|-----------------|
| | NRG Energy Inc. | Reliant Energy Inc. | Edison Mission Energy | Calpine Corp. | AES Corp. (The) |
| Rating | B+/Stable/-- | B+/Stable/-- | B/Watch Pos/-- | B/Negative/-- | B+/Positive/-- |
| Sales (mil \$) | 2,377.2 | 19,690.0 | 2,797.7 | 8,014.7 | 8,461.3 |
| Net income from continuing operations (mil \$) | 39.6 | (224.7) | 72.2 | 266.7 | (277.3) |
| Funds from operations (FFO) (mil \$) | 135.9 | 687.7 | 569.5 | 402.5 | 784.0 |
| Capital expenditures (mil \$) | 962.0 | 695.8 | 307.7 | 3,608.1 | 1,957.7 |
| Total debt (mil \$) | 7,709.9 | 4,764.3 | 6,413.6 | 11,530.8 | 21,191.7 |
| Preferred stock (mil \$) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Common equity (mil \$) | 1,326.1 | 5,296.2 | 1,724.2 | 3,827.9 | 1,554.3 |
| Total capital (mil \$) | 9,080.9 | 10,060.5 | 8,565.4 | 15,573.2 | 23,779.3 |
| Ratios | | | | | |
| Adjusted EBIT interest coverage (x) | (1.2) | 1.9 | 1.3 | 1.0 | 1.1 |
| Adjusted FFO interest coverage (x) | 0.8 | 2.5 | 1.6 | 1.2 | 1.4 |
| Adjusted FFO/Average total debt (%) | 1.8 | 13.6 | 5.8 | 4.1 | 3.4 |
| Net cash flow/Capital expenses (%) | 14.1 | 98.8 | 174.5 | 11.2 | 39.8 |
| Adjusted total debt/Capital (%) | 85.0 | 52.4 | 82.0 | 76.1 | 89.7 |
| Return on common equity (%) | 3.4 | (5.7) | 3.8 | (7.0) | (31.7) |
| Common dividend payout (%) | 0.0 | 0.0 | 45.0 | 0.0 | (1.8) |

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RESEARCH

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ISSUER CREDIT RATINGS**NRG Energy Inc.**

Corporate Credit Rating

To

B+/Stable/--

From

D/--/--

NRG Northeast Generating LLC

Corporate Credit Rating

D/Nm/--

NRG South Central Generating LLC

Corporate Credit Rating

D/Nm/--

AFFIRMED RATINGS**NRG Northeast Generating LLC**

Sr secd debt

D

NRG South Central Generating LLC

Sr secd debt

Local currency

D

NEW RATING**NRG Energy Inc.**

Sr secd debt

Local currency

BB

REVISED RATING**NRG Energy Inc.**

Sr unsecd debt

Local currency

B

From

D

Sr unsecd debt

Foreign currency

NR

CC

Corporate credit rating history:

| | Local Currency | Foreign Currency |
|----------------|-------------------|---------------------|
| Dec. 9, 2003 | B+ | B+ |
| Oct. 8, 2002 | D | D |
| Sept. 16, 2002 | D | CC |
| Aug. 29, 2002 | CCC | CCC |
| Aug. 7, 2002 | B+ | B+ |
| July 26, 2002 | BB | BB |
| June 24, 2002 | BBB | BBB |
| Feb. 16, 2000 | BBB- | BBB- |

Major Rating Factors**Strengths:**

- Reduced debt and other claims by \$6.3 billion in the bankruptcy process.
- Louisiana Generating provides 22% of overall cash flow.

Weaknesses:

- Primarily a merchant generator.
- Regulatory uncertainty.

- Low debt service coverage ratios.

Rationale

On Dec. 9, 2003, Standard & Poor's Ratings Services assigned its 'B+' corporate credit rating to NRG Energy Inc. (NRG). At the same time, Standard & Poor's assigned its 'BB' bank loan rating and its recovery rating of '1' to NRG's proposed \$1.2 billion first priority senior secured term loan B and revolving credit facility due 2010 and 2006, respectively. The '1' recovery rating indicates a high expectation of full recovery of principal.

Standard & Poor's also assigned its 'B+' rating to NRG's proposed \$1.0 billion second-priority senior secured bonds due 2013. Based on its recovery analysis, Standard & Poor's believes that second priority bondholders can expect meaningful recovery of principal.

Furthermore, Standard & Poor's assigned its 'B' rating to NRG's proposed \$500 million unsecured plan of reorganization (POR) notes due 2010.

Should the proposed amount of the first priority debt change, the rating will change.

The outlook is stable.

NRG, previously a 100% owned subsidiary of Xcel Energy Inc., filed for bankruptcy protection on May 14, 2003. Its plan of reorganization has been approved by 99% of the creditors and was confirmed by the bankruptcy court on Nov. 24, 2003. NRG emerged from bankruptcy as a separate, reorganized company on Dec. 5, 2003. NRG is engaged in the ownership and operation of U.S. merchant power generating facilities, thermal production and resource recovery facilities, and various international independent power producers.

The rating incorporates the following risks:

- A large percentage of the cash available for debt service is exposed to the U.S. merchant power markets that are experiencing depressed market conditions, resulting in poor quality of cash flow.
- Regulatory and political uncertainty of operating as a merchant generator in the U.S. power markets.
- Double leverage at certain projects (excluding guarantors), which diminishes cash available for debt service at the NRG level.
- Asset concentration in significant peaking assets that will tend to depend more on speculative and uncertain capacity values.
- Bullet maturities that will have to be refinanced.
- Scarcity of ongoing capital in general to the sector. NRG has adequate current liquidity; however, ongoing access to the capital markets is subject to market conditions.
- Low debt coverage ratios. Company base case projected coverages improve beginning in 2006 (when NRG expects a rebound in the power markets), but much of the improvement will come from capacity values that are expected to provide almost 50% of the revenues. Under Standard & Poor's low price case, coverages remain consistent with the rating level.

The following strengths mitigate the above risks:

- The reorganized NRG has reduced liabilities by \$5.2 billion in debt and \$1.3 billion in other claims in the bankruptcy process.
- NRG has exhibited a stable operating record with plant availability at over 90% for the past three years.
- Louisiana Generating, a stable and predictable source of cash flow, provides approximately 22% of overall cash flow.
- Elimination of \$1.7 billion in project level debt removes the restricted payments tests and results in better quality of cash flow and liquidity.
- Expiration of the Connecticut Light & Power contract on Dec. 31, 2003 alleviates cash flow strain on the Connecticut plants.

Secd loan rtgs. (Bank loan recovery rtg 1: High expectation of full recovery of principal)

The proposed first priority secured term loan B and revolving credit facility are rated two notches above

NRG's corporate credit rating. In comparison, the ratings for the proposed second priority bonds will not be differentiated from NRG's corporate credit rating, and the POR notes will be rated one notch lower than NRG's corporate credit rating. This is because, under Standard & Poor's recovery analysis, the asset values provide the first priority term loan B and revolving credit facility lenders with the expectation of full recovery of their principal in each downside scenario. By contrast, the second priority bondholders can expect to receive meaningful recovery of principal.

Security interests for the term loan B and revolving credit facility comprise first priority liens against all tangible and intangible assets of all subsidiaries of NRG that are not prohibited from issuing liens, all of the equity interests in these subsidiaries to the extent possible, and 66% of the equity interest in all foreign subsidiaries that are not prohibited from issuing liens. The loan is also guaranteed by the three major domestic subsidiaries, NRG Northeast, NRG South Central, and NRG Mid Atlantic. The second priority bonds have a second secured position in substantially all of the same security as the first priority lenders.

Standard & Poor's valuation is based on two methods of estimating enterprise value. The first is a discounted cash flow (DCF) method and the second uses a multiple of distressed after-tax cash flow. The most likely default scenario will be a continuing low power price scenario; capacity values that remain depressed or nonexistent and power markets that do not recover until the next decade.

The multiple analysis used actual 2002 and expected 2004 after-tax cash flow with a multiple of 5x. The 2004 after-tax cash flow was determined using NRG's estimated forward curve for power and gas. The DCF analysis used after-tax, before debt service cash flows discounted by three discount factors of 10%, 15%, and 20%. The three scenarios performed in the DCF method include 1) Standard & Poor's power and gas assumptions for 2003 (published Oct. 30, 2003) escalated at 2% p.a. for a 20-year period and assumes the power markets do not return to equilibrium; 2) Current 12-month forward strip for power and gas prices, escalated at 2% p.a., assumes no return to equilibrium; and 3) Current 12-month strip escalated by 2% p.a. and assumes a return to equilibrium in 2013.

Liquidity.

NRG has adequate liquidity as evidenced by availability under its bank facilities and cash on hand. NRG expects to have access to \$500 million in working capital upon emergence from bankruptcy. Under a stress scenario, the company's working capital sufficiently covers collateral calls and leaves excess liquidity. This excess allows NRG additional cushion to react to price fluctuations in the market price of power or gas where the company may be called upon to increase or post new collateral.

Outlook

The stable outlook reflects Standard & Poor's view that the company's credit quality should not significantly deteriorate in the short term. There is little room for a ratings upgrade in the near term based on the high business risk of operating as predominantly a merchant generator where cash flows may be volatile.

Rating Methodology

NRG is rated based on a consolidated methodology; however, particular note is given to any restrictive covenants that exist at nonrecourse project subsidiaries. Project subsidiaries that have nonrecourse debt and are viewed by Standard & Poor's as truly stand alone, are analyzed based on distributable cash flow rather than on a consolidated basis. Table 1 presents the subsidiaries that Standard & Poor's has viewed on a nonrecourse basis and analyzed based on their distributable cash flow.

Table 1

NRG Energy Inc. Subsidiaries Viewed on a Nonrecourse Basis

| Project | Facility type | Principal outstanding as of Sept. 30, 2003 (\$ mil., NRG share) | Cash flow contribution (%) |
|--|---------------|---|----------------------------|
| Consolidating projects to be retained | | | |
| NRG Peaker Finance Co. | Bond | 319.4 | 0 |
| LSP Kendall Energy LLC | Bank | 489.2 | 0 |
| LSP Energy LLC (Batesville) | Bond | 307.2 | 0 |
| Flinders | Bank | 154.1 | 3 |
| Camas Power Boiler LP | Bank/bond | 15.0 | 0 |
| NRG Energy Center (various) | Bank | 131.1 | 4 |
| Saale Energie GmbH (Schkopau) | Bank/lease | 315.3 | 3 |
| Subtotal | | 1,731.2 | 10 |

Nonconsolidating projects to be retained

| | | | |
|-----------|------------|---------|----|
| Gladstone | Bank | 92.0 | 0 |
| MIBRAG | Bank/lease | 137.0 | 0 |
| Total | | 1,960.3 | 10 |

The first step in Standard & Poor's analysis is an assessment of NRG's overall business risk. This takes into account management's strategy and analyzes the company's fundamental operating characteristics and competitive advantages or disadvantages. The analysis incorporates an evaluation of a company's prospective ability to expand its business, competitive position, and scope of the market segment.

The second step is an assessment of the financial profile of the company. This analysis incorporates the historical operating performance of the company in terms of plant availability measures, risk tolerance, and ability to improve operating statistics. The level of diversification in the portfolio and an analysis of financial measures are also considered. Earnings analysis focuses primarily on growth and sustainability measures. Cash flow adequacy is judged based upon historical and projected cash flow coverage ratios including funds from operations (FFO) interest coverage and cash flow to adjusted total debt. An analysis of the capital structure includes debt leverage compared with cash flow volatility, debt maturity schedules, exposure to interest and foreign exchange rates, off-balance-sheet obligations and other contingent liabilities. The capital structure analysis reviews the company's need for funds and the ability of the company to fund new investments internally. The last part of the financial analysis evaluates the company's liquidity position including its maturity schedule, its ability to access capital, including bank lines of credit, the capacity and willingness to issue common equity, and matching of asset life with financing tenors.

Plan of Emergence

NRG's plan of reorganization exchanges approximately \$5.3 billion of debt and \$1.3 billion of other claims for the following securities and cash:

- 100% of the new equity of NRG,
- \$500 million notes (POR notes),
- \$390 million of cash, and
- An additional distribution of up \$150 million in 2004 from the Xcel settlement.

NRG is raising approximately \$2.2 billion to refinance an existing \$1.7 billion of debt at NRG Northeast, NRG South Central, and NRG Mid Atlantic and to provide \$500 million of working capital to NRG. In addition, the plan of reorganization includes the issuance of \$500 million of unsecured POR notes. These notes will be issued to existing creditors, bear interest at 10%, and mature in 2010. Tables 2 and 3 present the sources and uses and selected balance sheet data for NRG.

Table 2**NRG Energy Inc. Sources and Uses**

| Sources | Amount | Uses | Amount |
|---------------------|---------|-----------------------------|---------|
| Cash | 119.1 | Repay Northeast Genco notes | 556.5 |
| New credit facility | | Repay South Central notes | 750.8 |
| Revolver* | | Accrued interest | 19.7 |
| Term loan | 950.0 | Prepayment premium | 19.6 |
| Notes offered | 1,000.0 | Fees & expenses | 66.0 |
| Total sources | 2,069.1 | Total uses | 2,069.1 |

*Total revolver capacity is \$250 million, none of which is expected to be drawn at closing.

Table 3**NRG Energy Inc. Selected Balance Sheet Data**

| (\$ Mil.) | As of Sept. 30, 2003 | Percent of total capitalization |
|---|----------------------|---------------------------------|
| Cash and cash equivalents | 173.6 | N.A. |
| Working capital | 737.6 | N.A. |
| Total assets | 9,041.4 | N.A. |
| Long-term debt including current maturities | 4,852.0 | 67 |
| Stockholders' equity | 2,403.9 | 33 |

Business Profile

Business profiles are categorized from '1' (strong) to '10' (weak). NRG has a business profile of '9'. This is a weak score and reflects the weakness inherent in operating as a wholesale electricity provider not subject to traditional rate of return regulation. The score reflects weak markets and uncertain regulatory framework for the wholesale business. Although NRG's business risk is tempered by some diversity across regions, fuel, and asset type, the concentration of cash flow in merchant generation cannot be overlooked and outweighs any diversification benefits NRG may otherwise have. NRG's wholesale segment is subject primarily to FERC regulation; however, market dynamics and rules are largely regionally controlled as well. The FERC is contemplating instituting a standard market design across the U.S.; however, this has been disputed by many market participants and will likely not be instituted any time soon.

Asset portfolio.

NRG owns and operates various power generation facilities, thermal production facilities, and resource recovery facilities. On an aggregate capacity basis, NRG has net ownership interests in operating facilities of approximately 16,300 MW (approximately 14,000 MW in the U.S. and the balance outside of the U.S.). NRG has several domestic and international projects for sale that are expected to close during 2004. These assets are not included in the company's total.

Although NRG's asset portfolio is somewhat diversified geographically and by fuel and dispatch type, the portfolio is heavily concentrated in the merchant market. NRG is also heavily invested in peaking assets. Standard & Poor's defines peaking assets as those that normally dispatch 10% or less. For NRG, peaking assets comprise about 40% of the overall MWs and provide approximately 22% of NRG's expected cash flow. Standard & Poor's views these cash flows as uncertain and speculative, therefore leaving the company heavily exposed to the vagaries of the merchant power markets, which suffer from overcapacity, lack liquidity, and exhibit significant regulatory and political uncertainty. Standard & Poor's does not foresee many U.S. regional power markets returning to equilibrium until the end of the decade or beyond.

The volatile nature of the cash flow stream to service the NRG bonds and the high fixed costs, both fixed operations and maintenance and debt service, severely detracts from credit quality. In Standard & Poor's analysis, NRG must earn, on average, a spark spread of approximately \$59 per kilowatt-year. Tables 4 through 7 present NRG's cash flow by cash contribution, geography, fuel type, and dispatch type.

Table 4

NRG Energy Inc. 10-Largest Cash Contributors

| Project | Projected cash flow (%) |
|----------------------|-------------------------|
| Louisiana Generating | 22 |
| Astoria | 14 |
| Indian River | 13 |
| Arthur Kill | 12 |
| Dunkirk | 9 |
| Huntley | 7 |
| West Coast | 6 |
| Total | 83 |

Table 5

NRG Energy Inc. Geographic Diversification

| Geographic area | MW |
|-----------------|-----|
| New York | 33 |
| Central | 31 |
| West | 8 |
| Australia | 8 |
| MidAtlantic | 7 |
| Germany | 3 |
| Total | 100 |

Table 6**NRG Energy Inc. Fuel Diversification**

| Fuel Type | Percent of total MW |
|------------------|----------------------------|
| Gas | 43 |
| Coal | 35 |
| Oil | 21 |
| Total | 100 |

Table 7**NRG Energy Inc. Load Profile**

| Load type | Percent of total MW |
|------------------|----------------------------|
| Base | 36 |
| Intermediate | 45 |
| Peaking | 39 |
| Total | 100 |

Management strategy and execution.

Under the leadership of an entirely new management team, NRG's operations and culture have been revamped since filing for bankruptcy protection. NRG is transitioning away from being a development company toward becoming an operating company with an emphasis on profitability and liquidity.

NRG still has what Standard & Poor's characterizes as a high-risk tolerance in terms of commodity market and price risk and financial risk, but lower risk tolerance in terms of institutional and sovereign risk. NRG has historically earned returns that are not commensurate with a higher-risk profile. Compared with other merchant generators, NRG stands out today as a company with a less diversified strategy focusing on generating assets alone. This concentrates the risk and volatility of the cash flow. There are no other cash flow sources to temper the potential cash flow volatility. Furthermore, the management team does not have an extensive background of operating other commodity-based competitive businesses and, therefore, may be challenged to operate profitably in a volatile commodity business.

In Standard & Poor's view, the company's strategy may be confronted in the future with slower growth prospects as it operates in the evolving power commodity markets. This could bring corporate growth rates and returns to lower levels than what NRG may foresee. Given the core generation-only strategy, NRG may also lack the flexibility to change its strategy if opportunities move away from generation.

NRG's financing strategy has markedly changed from its reliance in the past on significant nonrecourse project financing to a current capital structure that has more corporate level debt. The proposed new capital structure has corporate level recourse debt making up 54% of NRG's capitalization.

Domestic Projects**New York and New England.**

At various times over the past several years, NRG announced that it had won bids for purchasing several generating assets from the divestitures of Consolidated Edison Co. of New York, Niagara Mohawk Power Corp., Montaup Electric Co., and Connecticut Light & Power Co. The New England portfolio includes generating units comprising 6,495 MW, of which 29% are coal fired, 30% are natural gas fired, and 41% are oil fired. These assets represent a combination of baseload, intermediate, and peaking facilities in New York State, New York City, Massachusetts, and Connecticut, and NRG expects certain of these assets to contribute significant cash flow going forward. Astoria, Arthur Kill, Huntley, and Dunkirk will contribute about 42% of cash flow. While NRG did enter into a series of transition power sales contracts, most of these have since expired or will expire at the end of 2003 or 2004. As a result, the cash flows from these assets are predominantly merchant. NRG benefits from the traded capacity market in New York, with particular value in New York City. Standard & Poor's will credit some capacity value to these assets in the short term; however, since the value is uncertain over the long term, Standard & Poor's forecast reverts to lower capacity values after five years.

West Coast.

The West coast assets consist of four facilities with 36 units, representing 2,768 MW of generating capacity. These assets are expected to contribute 6% of NRG's cash flow. NRG purchased the West Coast assets in a joint venture with Dynegy Inc. The assets currently have a California Department of Water Resources (CDWR) contract maturing at the end of 2004. Pricing under the contract is high relative to market prices; however, Standard & Poor's is comfortable that the CDWR will likely make its payments

recovered as fuel or recycled. The fuel is reused in power generation facilities. The facility has a strong operating record and, since it began commercial operations, has experienced a resource recovery rate of about 90%.

International Projects

Gladstone Power Station, Australia.

Gladstone is a 1,680 MW coal-fired power plant located Gladstone, Australia. Gladstone consists of six units, each with 280 MW capacity, placed in service between 1975 and 1982. NRG owns 37.5% and provides for operations and maintenance of the facility through its wholly owned subsidiary. Gladstone provides less than 1% of NRG's cash flow.

In March 1994, the Gladstone facility was acquired from Queensland Electricity Commission (QEC) for A\$750 million. Comalco Ltd., one of the largest industrial companies in Australia, and other participants negotiated the purchase of Gladstone to ensure the uninterrupted supply of electricity to the Boyne Island Smelter's two existing potlines and to ensure that sufficient electricity would be available to permit the addition of a third potline, which was added last year. The Boyne Island Smelter has existing production costs that rank in the lowest quartile of smelters in the world, and access to its own uninterrupted supply of electricity should help to ensure the smelter's low-cost position. Much of the QEC's support for this transaction stems from the importance of the smelter to the region's economy because it is a major employer.

Gladstone will continue to be interconnected to Powerlink's system and be subject to economic dispatch by the Queensland Transitional Power Trading Corp. (QTPTC). However, Gladstone is dedicated to supply, on a priority basis, the existing smelter, the smelter expansion, and the Powerlink system. Currently, 50% of Gladstone's capacity goes to the smelter and the remainder to the QTPTC. During offpeak periods, much of the smelter's load is supplied by Queensland's state-owned baseload facilities with the higher-cost Gladstone facility running at reduced levels. During peak periods, the Gladstone Power Station reserve margin will be used to supply some of QTSC's load rather than the use of higher-cost, gas turbine plants. This mechanism should keep the incentives to achieve the lowest cost of electricity on Powerlink's system. Gladstone has a 35-year power purchase agreement (PPA) with the smelter and the QTPTC, which provide for fixed and variable costs. The fixed payments cover operating costs, as well as debt service and return on equity. Project coverage of debt service is adequate, averaging 1.5x over Gladstone's debt term.

MIBRAG, Germany.

In 1994, NRG, Morrison Knudsen Corp., and PowerGen PLC each acquired an indirect 33% interest in Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG). MIBRAG is a German company that owns three lignite-fired facilities, with an aggregate capacity of 200 MW, and two lignite mines, leases a third lignite mine, and has briquette manufacturing and coal dusting plants. MIBRAG accounts for less than 1% of NRG's cash flow. In addition, it is also an important investment in that the MIBRAG mines provide the Schkopau facility with its coal.

The MIBRAG investment was acquired after a portion of the former MIBRAG industrial complex formerly owned by the East German government was privatized following German reunification. In connection with the acquisition of MIBRAG, the partnership agreed to invest DM1 billion (US\$597 million) from operating cash flow by Dec. 31, 2004 to modernize the existing mines and power generation facilities and to develop new open pit mines. The partners agreed to acquire MIBRAG in part because of the planned construction of a 1,600 MW power generation facility in nearby Lippendorf, Germany that would be a significant purchaser of coal from MIBRAG's mines.

Schkopau Power Station, Germany.

Schkopau is a 960 MW lignite-burning power generation facility near Leipzig, Germany. Schkopau was NRG's first greenfield development project. The facility consists of two 425 MW turbines, one 110 MW turbine, and two boiler units; commercial operations began in 1996 for all units. NRG owns 200 net MW of capacity. Schkopau represents 5% of NRG's cash flow.

Schkopau sells its electrical generation to VEAG, a major German utility, under a 25-year PPA. Pricing of the PPA will consist of three components designed to cover capital costs, operating and variable costs, and fuel supply and transportation costs. Fuel costs are structured to pass through the facility's costs and are adjusted based on the escalation of coal prices under the coal supply agreement. By U.S. standards, the cost of power in the PPA is high, at around 7 cents per kWh; however, for the region, it is a relatively low cost power supplier.

Fuel is supplied by MIBRAG's Profen lignite mine pursuant to a long-term coal supply agreement. Pricing

is based on the heat content (in terms of Btus) of the coal supplied, adjusted quarterly using a fixed escalation factor.

Flinders.

NRG owns two power stations totaling 760 MW that are both located in South Australia. NRG closed this acquisition in September 2000 and financed it with 40% nonrecourse debt and 60% equity. Flinders is expected to contribute less than 1% of NRG's overall cash flow.

Financial Policy

NRG's financial policy is moderately aggressive. NRG still has a significant amount of debt for a merchant portfolio (approximately \$194 per kW excluding nonrecourse international subsidiaries). NRG conducts a substantial part of its business through direct and indirect subsidiaries, some with debt at the operating level. As a result, to fund debt service and meet other cash obligations at the corporate level, NRG relies on distributions and dividend payments from its subsidiaries. The ability of certain subsidiaries to distribute cash to NRG depends on project profitability and potentially restrictive covenants in the operating company level debt. NRG's largest cash generating subsidiaries, NRG South Central, NRG Northeast, and NRG Mid Atlantic, are not subject to any cash traps.

Financial Profile

Profitability and cash flow.

NRG expects to generate wholesale cash flow from five regions: New York, New England, Central, Mid-Atlantic, and the West. The forecast under NRG's assumptions indicates that the existing fleet of assets will provide around \$400 million of annual funds from operation in 2004 to be used for repayment of debt. When those cash flows are stressed in the later years for low price scenarios, Standard & Poor's notes that cash flow could decrease significantly. Giving no value for capacity revenues after 2006 results in coverages that are less than 1x, while NRG's base case leads to minimum consolidated FFO interest coverage ratios of 1.76x, over the next 10 years. Standard & Poor's reasonable downside sensitivity case results in coverages that reach about 1.3x over the next 10 years. This level of coverage is adequate for the rating level.

Capital structure and financial flexibility.

NRG's leverage is high both on a parent-only basis at 54% and on a consolidated basis at roughly 66% of total capitalization. In Standard & Poor's estimation, NRG's financial flexibility is limited. The financing flexibility of almost all energy merchant companies has been impaired by the erosion of investor confidence following the bankruptcy of Enron Corp., accounting irregularities, and allegations of market manipulation. Standard & Poor's thinks that NRG's level of leverage is still too high because of the composition of the portfolio, which relies so heavily on capacity values from its peaking assets. The company does not have access to the broad debt capital markets, nor can it access the equity markets. It is currently reliant on the ability to generate sufficient cash from operations and selected asset sales to deleverage.

Funding requirements over the forecast period are primarily driven by nondeferrable capital expenditures at many of the older facilities, including emissions allowances. The quality of cash flow, however, is very weak, as the majority is contributed from merchant generation where NRG is exposed to volatile commodity markets. NRG is not able to hedge long term because of its low credit rating and the taint of the bankruptcy filing. As a result, while coverages are sufficient under the company's base case, which assumes a market recovery in 2006, should cash flow continue to be weak, deleveraging will be a challenge. As such, Standard & Poor's believes debt protection measures are in line with the 'B' rating. Standard & Poor's considers ongoing cash flow available to service corporate level debt as speculative. Furthermore, because the loans do not amortize, there is significant refinancing risk.

Capital needs and liquidity.

For capital intensive firms such as NRG, Standard & Poor's analyzed the expected capital requirements and compared that with both internally generated cash flow and the company's ability to finance its capital requirements externally. NRG does not have significant capital requirements over the next two years, except for capital expenditures relating to various environmental improvements at plants across all regions. NRG expects to fund all capital expenditures from cash flow from operations.

At this time, it is uncertain whether NRG has adequate access to the capital markets. Nevertheless, Standard & Poor's rating assumes that NRG does not make any acquisitions or grow until an adequate capital structure is achieved. While NRG was a growth company with an aggressive development program, that has changed and the company's strategy is to become a good operating company. The company is currently on the path to becoming an operating company generating sufficient cash flow to pay its debt obligations.

NRG has adequate liquidity as evidenced by availability under its bank facilities and cash on hand. NRG expects to have access to \$500 million in working capital upon emergence from bankruptcy. Under a stress scenario, the company's working capital sufficiently covers collateral calls and leaves excess liquidity. This excess allows NRG additional cushion to react to price fluctuations in the market price of power or gas where the company may be called upon to increase or post new collateral.

Asset sales.

NRG has proposed selling various assets as part of its reorganization plan. If these sales are not completed as projected, however, there will not be an adverse effect on the company's liquidity. NRG does not rely on these asset sales to fund any liquidity requirements. Table 8 outlines the assets for sale, expected proceeds, and expected date of completion. In general, Standard & Poor's believes the assets sales are reasonable both in terms of timing and proceeds.

Table 8

NRG Energy Inc. Projects to be Sold Through Auction

| Project | NRG's equity ownership (%) |
|---------------------------|----------------------------|
| NRG McClain | 100.0 |
| Cadillac Renewable Energy | 50.0 |
| PERC (Penobscot Energy) | 50.0 |
| Commonwealth Atlantic LP | 50.0 |
| NEO | 50 to 70 |
| Powersmith Cogen | 8.8 |
| Saguaro | 50.0 |
| Cogen America | 20.0 |
| Enfield Energy Centre Ltd | 25.0 |
| COBEE | 100.0 |
| Cahua SA | 99.7 |
| Itiquira Energetica SA | 98.0 |
| Energia Pacasmayo S.L.R. | 100.0 |
| Loy Yang | 25.4 |
| Hsin Yu | 62.0 |

Forecast financial results.

NRG's base case assumes the following:

- Power markets recover in 2006,
- Natural gas price forecast \$4.00 per million Btu,
- All excess cash flow pays down term loan B (four-year payout),
- 7.75% interest on term loan B,
- 9% interest on the second priority bonds,
- 10% interest on POR notes, and
- 3% on Xcel notes.

Standard & Poor's cases.

Except for the price assumptions, the financing assumptions are the same in all of Standard & Poor's cases. Standard & Poor's performed several sensitivity cases as outlined in Table 9. Standard & Poor's believes that, based on its analysis, the most reasonable cases are case 2 and case 4. These scenarios emphasize how important capacity values are to a portfolio that has a high degree of merchant peaking assets.

Table 9

NRG Energy Inc. Sensitivity Analysis

| Case | Description | Minimum FFO | 10-year average FFO | Minimum | 10-year average |
|------|---|-----------------------|---------------------|-----------------|-----------------|
| | | interest coverage (x) | | FFO to debt (%) | FFO to Debt (%) |
| 1 | Base case | 1.76 | 2.95 | 16 | 26 |
| 2 | Standard & Poor's power and gas price assumptions; no extrinsic or capacity values. | (0.45) | 0.65 | (3) | 5 |
| 2 | S&P price assumptions; 15% of revenues in additional extrinsic and capacity values | 0.60 | 1.31 | 8 | 9 |

| | | | | | |
|---|---|------|------|----|----|
| 3 | 12 month forward prices; no extrinsic or capacity values | 0.97 | 1.11 | 7 | 8 |
| 4 | 12 month forward; 15% of revenues in additional extrinsic and capacity values | 1.18 | 1.33 | 7 | 8 |
| 5 | 2002 actual CFADS escalated 2% p.a. | 1.37 | 1.57 | 10 | 11 |

FFO—Funds from operations.

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RESEARCH

Research Update: NRG Energy 'B+' CCR Affirmed After \$5.8B Acquisition Announcement; Other Ratings Put On Watch

Publication date: 03-Oct-2005
Primary Credit Analyst: Arleen Spangler, New York (1) 212-438-2098;
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Credit Rating: B+/Stable/B-1

Rationale

On Oct. 3, Standard & Poor's Ratings Services affirmed its 'B+' corporate credit rating on merchant generator NRG Energy Inc. At the same time, Standard & Poor's placed its 'B-1' short-term corporate credit rating on the company on CreditWatch with negative implications.

Standard & Poor's also placed its 'BB' rating and '1' recovery rating on NRG's first-lien term loan, its 'B' rating and '3' recovery rating on NRG's second-priority bonds, and its 'CCC+' rating on NRG's convertible preferred stock on CreditWatch with developing implications.

The rating actions follow the announcement on Oct. 2, 2005 that NRG has agreed to acquire all the outstanding equity of Texas Genco LLC for \$5.8 billion.

As of June 30, 2005, the Princeton, N.J.-based company had \$2.5 billion of recourse debt outstanding.

The affirmation of the 'B+' corporate credit rating reflects Standard & Poor's analysis that based on the company's proposed capital structure of the combined entities, the combined corporate credit rating would be 'B+'. This rating assumes that all of the existing hedges at Texas Genco stay in place through their maturity.

The CreditWatch with negative implications for NRG's short-term rating reflects the fact that NRG will likely be subject to more trading cash collateral calls because of the volatility in commodity prices, and NRG's acquisitive strategy will tend to use cash.

A CreditWatch listing with developing implications on NRG's two debt issuances and the convertible issue means that the ratings could be raised, lowered, or stay the same. At the current time, the company intends to repay the first-lien debt, and management is deciding whether to repay the second-lien bonds or restructure them in some way. However, there is uncertainty surrounding the ultimate capital structure and whether any of the current debt issues will be part of that. Standard & Poor's will re-evaluate the debt issues once more is known about the final capital structure.

Ratings List

Ratings Affirmed

NRG Energy Inc.
Long-term corp credit rtg B+/Stable

Rating Placed On Watch Neg

| | To | From |
|----------------------------|---------------|------|
| Short-term corp credit rtg | B-1/Watch Neg | B-1 |

Ratings Placed On Watch Dev

| | | |
|---------------------------|----------------|------|
| 1st-lien secd term loan B | BB/Watch Dev | BB |
| Recovery rating | 1/Watch Dev | 1 |
| 2nd-priority bonds | B/Watch Dev | B |
| Recovery rating | 3/Watch Dev | 3 |
| 4% convertible prfd stock | CCC+/Watch Dev | CCC+ |

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January 10, 2007

[Click **here** and type recipient's address]

Dear Sir or Madam:

I want to congratulate you for achieving a significant accomplishment in 2006 of zero recordable injuries. Your focus and commitment to sending every one of your employees home injury-free for an entire year is to be commended.

The development and continued focus on a safety culture will be a very significant goal for me during 2007. You and your organization have shown what a safety based culture can achieve.

Again, congratulations on a super job. I look forward to working with you in 2007 to continue this achievement and drive an NRG safety culture across our entire organization.

Sincerely,

John Ragan
Executive Vice President and President, NE

on time and in full. Thereafter, the assets may have some strategic value given their location and ability to provide ancillary services to the load centers of Los Angeles and San Diego. This value has not been incorporated in Standard & Poor's sensitivity cases.

Mid-Atlantic.

The Mid-Atlantic assets consist of four facilities representing seven small- to medium-sized coal-fired steam electric units, three small oil fired units, one small natural gas fired, and several combustion turbines. The Mid-Atlantic assets also include an ownership share in Conemaugh (7.55%) and Keystone (6.17%). The plants are located in Delaware, Maryland, New Jersey, and Pennsylvania. The age of the assets ranges from 21 to 43 years old, except for Deepwater Unit 4, which was placed in service 71 years ago.

Indian River, located on the Delmarva peninsula has some locational benefit in the short term. NRG expects Indian River to contribute about 13% of cash flow. The assets all sell power in the PJM and are located close to load concentration areas and transmission interconnections.

Kendall.

Kendall is a 1,168 MW natural gas-fired combined cycle gas turbine generating facility currently operating in Minooka, Ill. The facility is currently financed under a stand-alone construction facility at \$505 million maturing in 2006. Kendall has entered into separate 10- and 15-year tolling arrangements with Dynegy and Rainy River Energy. Dynegy is obligated to purchase the entire output from units 1 and 2, and Rainy River must purchase from unit 3. Power from unit 4 is subject to merchant risk. Kendall is operating on a break-even basis currently. Under NRG's base case projections, the company will make a determination in 2006 (when the current debt matures) whether or not to refinance the debt. This project is fully nonrecourse to NRG. There are no contingent equity contributions or liabilities back to NRG. Standard & Poor's cases assume Kendall provides zero cash flow to NRG.

Louisiana Generating.

NRG closed the acquisition of the fossil fuel generating assets of Cajun Electric Power Cooperative for a total of about \$1.026 billion. Cajun was a rural electric cooperative that provided wholesale generation and transmission services to a 12-member distribution cooperative under long-term contracts. NRG's assets include 1,700 MW of generating capacity.

The contractual arrangements in place provide that 75% of the distribution co-ops enter into 25-year contracts at about 4.01 cents per kilowatt-hour (kWh), fully approved for pass through by the Louisiana Public Service Commission. These contracts secure 60% of the revenue stream for the 25-year term; 40% is merchant of which 30% is energy revenues. Three out of the four distribution co-ops, which had previously entered into Form C contracts (maturing 2004), have extended their contracts to October 2014. The fourth extended its contract until October 2009. NRG sells any excess power in the open wholesale market. Louisiana Generating is exposed to the risk of managing the all-requirements nature of the contracts with the co-ops. Should demand increase significantly during the summer months, NRG must ensure that it has adequate power to serve the load. Louisiana Generating had some problems managing this risk in the past. The company is currently managing this risk by contracting with several affiliate peaking assets in the region to more than cover a potential shortfall. Louisiana Generating expects to provide 33% of the ongoing cash flow.

Thermal operations.

Thermal operations are expected to provide only 3% of total corporate cash generation. Thermal operations are largely 100%-owned subsidiaries of NRG. The Minneapolis Energy Center (MEC) accounts for the majority of thermal cash generation. Currently, the MEC provides 90 customers in downtown Minneapolis with 1.5 billion pounds of steam per year and 30 customers with 37 million pounds per year of chilled water. Over the long term, these customers should remain with MEC not only as a result of the price structure, but also because the customers currently are only equipped to receive heating and cooling through the MEC system, and any change would result in substantial infrastructure costs.

Currently, MEC provides steam and chilled water to each of its customers pursuant to 20-year energy supply agreements. These agreements generally are standard contracts, with a uniform rate structure, consisting of three components: a demand charge (which covers fixed costs), a consumption charge (which provides a per unit margin), and an operating charge (which covers variable costs). Revenues are well matched with expenses, ensuring adequate debt service coverage at the project level.

Resource Recovery.

Resource recovery represents only 4% of total corporate cash generation. Recovery operations are composed of NRG's Newport facilities and service contracts. The Newport facility, which accounts for a majority of resource recovery cash flows, is the largest component of this business line. NRG's Newport resource recovery facility can process 1,500 tons of municipal solid waste per day, of which 92% is